

SAND HILL IT SECURITY ACQUISITION CORP

Form S-4

December 16, 2005

As filed with the Securities and Exchange Commission on December 16, 2005

Registration No. 333-\_\_\_\_\_

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM S-4**

**REGISTRATION STATEMENT**  
**UNDER**  
**THE SECURITIES ACT OF 1933**

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**SAND HILL IT SECURITY ACQUISITION CORP.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction  
of Incorporation or  
Organization)

**6770**  
(Primary Standard Industrial  
Classification Code Number)

**20-0996152**  
(I.R.S. Employer  
Identification Number)

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**3000 Sand Hill Road**  
**Building 1, Suite 240**  
**Menlo Park, California 94025**  
**(650) 926-7023**

(Address, including zip code, and telephone number, including  
area code, of registrant's principal executive offices)

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**Humphrey P. Polanen**  
3000 Sand Hill Road  
Building 1, Suite 240  
Menlo Park, California 94025  
(650) 926-7023

(Name, address, including zip code, and telephone number,  
including area code, of Agent for service)

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**With Copies To:**  
**Gregory J. Schmitt, Esq.**  
Jenkins & Gilchrist, P.C.  
1445 Ross Avenue  
Suite 3700  
Dallas, Texas 75202  
(214) 855-4500

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement of the earlier effective registration statement for the same offering. ☐

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If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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CALCULATION OF REGISTRATION FEE

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered<sup>(1)</sup></b>	<b>Proposed Maximum Offering Price<sup>(2)</sup></b>	<b>Proposed Maximum Aggregate Offering Price<sup>(2)</sup></b>	<b>Amount of Registration Fee</b>
Common Stock, par value \$0.01 per share	9,950,000	\$5.20	\$50,745,000	\$5,429.72

(1) Represents a bona fide estimate of the maximum number of shares of Sand Hill common stock, par value \$0.01 per share, that may be issued in connection with the merger described herein.

(2) Estimated solely for the purposes of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, as amended, calculated based on the average of the bid and ask price for the shares of Sand Hill common stock on the NASD Over-the-Counter Bulletin Board on December 12, 2005, which was \$5.20.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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The information on this proxy statement/prospectus is not complete and may be changed. Sand Hill IT Security Acquisition Corp. may not distribute and issue the shares of common stock being registered pursuant to this registration statement until the registration statement filed with the Securities and Exchange Commission is declared effective. This proxy statement/prospectus is not an offer to sell these securities and Sand Hill IT Security Acquisition Corp. is not soliciting an offer to buy these securities in any jurisdiction where such offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED DECEMBER 16, 2005**

**Sand Hill IT Security Acquisition Corp.  
3000 Sand Hill Road  
Building 1, Suite 240  
Menlo Park, California 94025**

To the Stockholders of Sand Hill IT Security Acquisition Corp.:

You are cordially invited to attend a special meeting of the stockholders of Sand Hill IT Security Acquisition Corp., relating to the proposed merger of Sand Hill Merger Corp., a wholly-owned subsidiary of Sand Hill, and St. Bernard Software, Inc., which will be held at \_\_\_\_\_ on \_\_\_\_\_, 200\_\_, at \_\_\_\_\_, Suite \_\_\_\_\_, California \_\_\_\_\_.

At this important meeting, you will be asked to consider and vote upon the following proposals:

- to adopt the Agreement and Plan of Merger, dated as of October 26, 2005, among Sand Hill, Sand Hill Merger Corp., a wholly-owned subsidiary of Sand Hill, and St. Bernard, and the transactions contemplated by the merger agreement, as amended;
- to adopt the amended and restated certificate of incorporation of Sand Hill to change the name of Sand Hill to St. Bernard Software, Inc. and to remove certain provisions related to a business combination that were put in place as a result of our being a Targeted Acquisition Corporation;
- to adopt the St. Bernard Software, Inc. 1992 Stock Option Plan, the St. Bernard Software, Inc. 2000 Stock Option Plan and the St. Bernard Software, Inc. 2005 Stock Option Plan; and
- to consider and vote upon a proposal to adjourn the special meeting to a later date or dates, if necessary, to permit further solicitation and vote of proxies in the event there are not sufficient votes at the time of the special meeting to adopt the merger proposal, the amendment proposal or the stock option plans proposal.

The adoption of the merger proposal is not conditioned on the adoption of the amendment proposal, the stock option plans proposal or the adjournment proposal. However, the adoption of the amendment proposal and the stock option plans proposal is conditioned upon the adoption of the merger proposal.

It is expected that holders of St. Bernard common stock will hold approximately 65.6% of the outstanding shares of Sand Hill common stock immediately following the closing of the merger, based on the number of shares of Sand Hill and St. Bernard common stock outstanding as of October 26, 2005. Under the merger agreement, holders of St. Bernard common stock, options and warrants are entitled to receive their pro rata portion of 10,880,000 shares of Sand Hill common stock, replacement options or replacement warrants to be issued in the merger. No additional consideration will be issued by Sand Hill in the merger. This results in an exchange ratio of 0.421419 shares of Sand Hill common stock or replacement options or warrants for each share of St. Bernard common stock or options or warrants to purchase St. Bernard common stock outstanding. Based upon the number of shares of St. Bernard common stock outstanding and the number of shares issuable for St. Bernard common stock pursuant to outstanding

options and warrants as of October 26, 2005, Sand Hill will issue approximately 9,759,600 shares of common stock at the close of the merger and holders of options and warrants to purchase shares of the common stock of St. Bernard will receive, in exchange for those options and warrants, options and warrants to purchase approximately 1,120,400 shares of Sand Hill common stock. To the extent that outstanding St. Bernard options or warrants are exercised prior to the closing of the merger, the number of shares of Sand Hill common stock that would be issued at the closing of the merger would increase and the number of the shares of Sand Hill common stock that would be subject to replacement options or warrants to be issued at the closing of the merger would decrease by a like amount. In no event will Sand Hill issue shares of common stock or replacement options or warrants for an aggregate amount in excess of 10,880,000 shares, other than with respect to purchase price adjustments, which are not expected to be material. For a complete description of the post-closing fully diluted capitalization of Sand Hill please see "*Beneficial Ownership of Securities*" on page \_\_\_\_.

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After completion of the merger, if no holders of shares of Sand Hill common stock have demanded that Sand Hill convert their shares into a pro rata portion of the trust account holding a substantial portion of the net proceeds of Sand Hill's initial public offering, then Sand Hill stockholders will own approximately 34.4% of the combined company's issued and outstanding shares of common stock. If one or more of Sand Hill's stockholders vote against the merger proposal and demand that Sand Hill convert their shares into a pro rata portion of the trust account, then Sand Hill's stockholders will own less than approximately 34.4% of the combined company's issued and outstanding shares of common stock after completion of the merger.

The affirmative vote of a majority of the outstanding shares of Sand Hill common stock on the record date is required to approve the merger proposal and the amendment proposal, and the affirmative vote of a majority of the shares of Sand Hill's common stock present in person or represented by proxy at the special meeting is required to approve each of the stock option plans proposal and the adjournment proposal. Each Sand Hill stockholder that holds shares of common stock issued in Sand Hill's initial public offering has the right to vote against the merger proposal and at the same time demand that Sand Hill convert such stockholder's shares into cash equal to a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill's initial public offering, plus interest thereon, are deposited. These shares will be converted into cash only if the merger is completed. However, if the holders of 20% or more of the shares of common stock issued in Sand Hill's initial public offering vote against the merger and demand connection of their shares into a pro rata portion of the trust account, then Sand Hill will not be able to consummate the merger. Sand Hill's initial stockholders, who purchased their shares of common stock prior to its initial public offering and presently own an aggregate of approximately 19.6% of the outstanding shares of Sand Hill common stock, have agreed to vote their shares of Sand Hill common stock purchased prior to the initial public offering on the merger proposal in the same manner as how the majority of the shares of common stock held by all other Sand Hill stockholders are voted on the merger proposal.

Sand Hill's shares of common stock, warrants and units are listed on the Over-the-Counter Bulletin Board under the symbols SHQC, SHQCW and SHQCU, respectively. St. Bernard's securities are not listed or quoted on any national securities exchange, the Nasdaq Stock Market, or the Over-the-Counter Bulletin Board. On December 12, 2005, the closing sale price of Sand Hill common stock, warrants and units, was \$5.20, \$0.92 and \$6.85, respectively.

After careful consideration of the terms and conditions of the proposed merger agreement, the amendment proposal, the stock option plans proposal and the adjournment proposal, the board of directors of Sand Hill has determined that the merger agreement, the transactions contemplated thereby, the amendment proposal, the stock option plans proposal and the adjournment proposal are fair to and in the best interests of Sand Hill and its stockholders. The board of directors of Sand Hill unanimously recommends that you vote or give instruction to vote **"FOR"** the adoption of the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal.

Enclosed is a notice of special meeting and proxy statement containing detailed information concerning the merger agreement, the transactions contemplated thereby and the stock option plans. Whether or not you plan to attend the special meeting, we urge you to read this material carefully.

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I look forward to seeing you at the meeting.

Sincerely,

Humphrey P. Polanen  
*Chairman of the Board and  
Chief Executive Officer*

**Your vote is important.** Whether you plan to attend the special meeting or not, please sign, date and return the enclosed proxy card as soon as possible in the envelope provided.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger described in this proxy statement/prospectus or the shares of common stock described in this proxy statement/prospectus to be issued in connection with the merger or determined whether this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**See “Risk Factors” beginning on page \_\_\_\_ for a discussion of various factors that you should consider in connection with the merger.**

This proxy statement is dated \_\_\_\_\_, 200\_\_ and is first being mailed to Sand Hill stockholders on or about \_\_\_\_\_, 200\_\_.

In connection with this offering, no person is authorized to give any information or to make any representations not contained in this proxy statement/prospectus. If information is given or representations are made, you may not rely on that information or those representations as having been authorized by Sand Hill. This proxy statement/prospectus is neither an offer to sell nor a solicitation of an offer to buy securities where an offer or solicitation would be unlawful. You may not assume from the delivery of this proxy statement/prospectus, nor from any sale made under this proxy statement/prospectus, that Sand Hill's or St. Bernard's affairs are unchanged since the date of this proxy statement/prospectus or that the information contained in this proxy statement/prospectus is correct as of any time after the date of this proxy statement/prospectus.

This proxy statement/prospectus incorporates important business and financial information about Sand Hill that is not included in or delivered with the document. This information is available without charge to security holders upon written or oral request. The request should be sent to:

Humphrey P. Polanen  
Sand Hill IT Security Acquisition Corp.  
3000 Sand Hill Road  
Building 1, Suite 240  
Menlo Park, California 94025

To obtain timely delivery of requested materials, security holders must request the information no later than five days before the date they submit their proxies or attend the special meeting. The latest date to request the information to be received timely is \_\_\_\_\_, 200\_\_.

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**Sand Hill IT Security Acquisition Corp.  
3000 Sand Hill Road  
Building 1, Suite 240  
Menlo Park, California 94025**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON \_\_\_\_\_, 200\_\_**

**TO THE STOCKHOLDERS OF SAND HILL IT SECURITY ACQUISITION CORP.:**

NOTICE IS HEREBY GIVEN that a special meeting of stockholders, including any adjournments or postponements thereof, of Sand Hill IT Security Acquisition Corp., a Delaware corporation, will be held at \_\_\_\_\_ on \_\_\_\_\_, 200\_\_, at \_\_\_\_\_, Suite \_\_\_\_\_, California \_\_\_\_\_, for the following purposes:

- To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of October 26, 2005, among Sand Hill, Sand Hill Merger Corp., a wholly-owned subsidiary of Sand Hill, and St. Bernard Software, Inc., and the transactions contemplated by the merger agreement, as amended;
- To consider and vote upon a proposal to adopt the amended and restated certificate of incorporation of Sand Hill to change the name of Sand Hill to St. Bernard Software, Inc. and to remove certain provisions related to a business combination that were put in place as a result of our being a Targeted Acquisition Corporation;
- To consider and vote upon a proposal to adopt the St. Bernard Software, Inc. 1992 Stock Option Plan, the St. Bernard Software, Inc. 2000 Stock Option Plan and the St. Bernard Software, Inc. 2005 Stock Option Plan; and
- To consider and vote upon a proposal to adjourn the special meeting to a later date or dates, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the merger proposal or the stock option plans proposal.

The adoption of the merger proposal is not conditioned on the adoption of the stock option plans proposal or the adjournment proposal. However, the adoption of the stock option plans proposal is conditioned upon the adoption of the merger proposal.

The board of directors has fixed the close of business on \_\_\_\_\_, 200\_\_, as the date for which Sand Hill stockholders are entitled to receive notice of, and to vote at, the special meeting and any adjournments thereof. Only the holders of record of Sand Hill common stock on that date are entitled to have their votes counted at the special meeting and any adjournments or postponements of it.

Sand Hill will not transact any other business at the special meeting, except for business properly brought before the special meeting or any adjournment or postponement of it by Sand Hill's board of directors.

**Your vote is important.** Please sign, date and return your proxy card as soon as possible to make sure that your shares are represented at the special meeting. If you are a stockholder of record of Sand Hill common stock, you may also cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct your broker or bank on how to vote your shares. If you do not vote or do not instruct your broker or bank how to vote, it will have the same effect as voting against the merger proposal and the stock option plans proposal.



**The board of directors of Sand Hill unanimously recommends that you vote “FOR” the adoption of the merger proposal, the stock option plans proposal and the adjournment proposal.**

By Order of the Board of Directors,

Humphrey P. Polanen  
*Chairman of the Board and*  
*Chief Executive Officer*  
\_\_\_\_\_, 200\_\_

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THE SAND HILL SPECIAL MEETING

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## ANNEXES

A—Agreement and Plan of Merger, dated as of October 26, 2005, by and among Sand Hill IT Security Acquisition Corp., Sand Hill Merger Corp. and St. Bernard Software, Inc. and Amendment to Agreement and Plan of Merger, dated as of December \_\_, 2005, by and among Sand Hill IT Security Acquisition Corp., Sand Hill Merger Corp. and St. Bernard Software, Inc.

B—Form of Amended and Restated Certificate of Incorporation of Sand Hill IT Security Acquisition Corp.

C—St. Bernard Software, Inc. 1992 Stock Option Plan

D—St. Bernard Software, Inc. 2000 Stock Option Plan

E—St. Bernard Software, Inc. 2005 Stock Option Plan

## QUESTIONS AND ANSWERS ABOUT THE MERGER

- Q. Who is Sand Hill IT Security?**
- A.** Sand Hill is a “Targeted Acquisition Corporation”, or TAC, based in Menlo Park, California, organized to effect a merger, capital stock exchange or other similar business combination with an operating business in the IT security industry. Our goal is to enhance the value of Sand Hill by helping this targeted business achieve its business objectives by providing industry expertise, expansion capital for organic growth and the ability to issue shares in a public company as consideration for making additional targeted acquisitions.
- Q. Who is St. Bernard Software?**
- A.** St. Bernard is a leading independent supplier of IT security software products and services, with a special emphasis on Secure Content Management, or SCM, including secure messaging. St. Bernard’s products protect businesses, government organizations and educational institutions from cyber attack, improve worker productivity, reduce legal liability and assist in meeting regulatory requirements for data/privacy protection. St. Bernard’s network-attached security products are delivered as appliances that connect into the data path between the Internet gateway and a company’s local area network. St. Bernard’s system security products consist of software that is installed on workstations and servers. St. Bernard has approximately 8,000 customers, primarily comprised of small to medium sized businesses, educational institutions and governmental organizations. The products offered by St. Bernard include Open File Manager, a data protection product; UpdateEXPERT, a patch and settings management product; iPrism, SCM, Internet access management product; and ePrism, SCM, secure messaging e-mail filtering product. According to International Data Corporation, or IDC, in September 2005, St. Bernard’s iPrism product line was the leading Internet filtering appliance, enabling customers to manage and control employee access to millions of web sites that are updated continuously as part of St. Bernard’s fee-based subscription service. Other St. Bernard’s products also have a subscription component, which results in adding positive cash flow, via deferred revenue, to St. Bernard’s business thereby increasing revenue predictability. St. Bernard’s revenue model includes revenue from appliance sales, software license sales and multi-year subscription for software/database updates. St. Bernard had revenues of \$21.2 million in 2004 and revenues of \$18.1 million for the first nine months of 2005. Founded in 1995, St. Bernard Software is a private company with headquarters in San Diego, California.

**Q. Why is Sand Hill proposing the merger with St. Bernard?**

**A.** The Sand Hill board of directors believes that the proposed merger between Sand Hill and St. Bernard is in the best interests of Sand Hill and its stockholders for the following primary reasons:

- St. Bernard is positioned in a portion of the IT security market known as Secure Content Management, or SCM, that has experienced rapid growth and that we believe will continue to experience rapid growth;
- St. Bernard has had solid growth in the last year, and recently has experienced 41% revenue growth from the third quarter of this year over the third quarter of last year;
- We believe that St. Bernard has an attractive business model, with a subscription revenue component that increases revenue predictability; and
- St. Bernard has approximately 8,000 customers, with a very high retention rate;
- St. Bernard, according to IDC in September 2005, had the number one market position in web-filtering appliances;
- In the third quarter of 2005, St. Bernard reported quarterly net income, as well as positive cash flows from operations; and
- We believe that St. Bernard has a strong management team.

Given the above, Sand Hill believes that a business combination with St. Bernard will provide Sand Hill stockholders with an opportunity to participate in a combined company in the IT security market with significant growth potential. *See page \_\_\_\_.*

**Q. What is being voted on?**

**A.** There are four proposals that you are being asked to vote on. The first proposal is to adopt the merger agreement and the transactions contemplated by the merger agreement. We refer to this proposal as the merger proposal. The second proposal is to adopt the amended and restated certificate of incorporation of Sand Hill to change the name of Sand Hill to St. Bernard Software, Inc. and to remove certain provisions related to a business combination that were put in place as a result of our being a Targeted Acquisition Corporation. We refer to this proposal as the amendment proposal. The third proposal is to adopt the St. Bernard Software, Inc. 1992 Stock Option Plan, the St. Bernard Software, Inc. 2000 Stock Option Plan and the St. Bernard Software, Inc. 2005 Stock Option Plan for non-employee directors, officers and other key employees. We refer to this proposal as the stock option plans proposal. The fourth proposal allows the adjournment of the special meeting to a later date if necessary to permit further solicitation of proxies in the event that there are not sufficient votes at the time of the special meeting to approve the merger proposal or the stock option plans proposal. We

refer to this proposal as the adjournment proposal.

- Q. Does the Sand Hill board of directors recommend voting in favor of the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal?**
- A.** Yes. After careful consideration, Sand Hill’s board of directors has determined unanimously that the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal are fair to, and in the best interests of, Sand Hill and its stockholders. Sand Hill’s board recommends that Sand Hill stockholders vote or instruct your vote to be cast “**FOR**” the adoption of the merger agreement, the amendment proposal, the stock option plans proposal and the adjournment proposal. Please see “*The Merger Proposal - Sand Hill Reasons for the Merger*” on page \_\_\_\_.
- Q. What vote is required in order to adopt the merger proposal?**
- A.** The adoption of the merger agreement and the transactions contemplated by the merger agreement will require the affirmative vote of a majority of the outstanding shares of Sand Hill’s common stock on the record date. Sand Hill’s initial stockholders, who purchased their shares of common stock prior to its initial public offering and presently own an aggregate of approximately 19.5% of the outstanding shares of Sand Hill common stock, have agreed to vote their shares of Sand Hill common stock purchased prior to the initial public offering on the merger proposal in the same manner as how the majority of the shares of common stock held by all other Sand Hill stockholders are voted on the merger proposal. However, if the holders of 20% or more of the shares of common stock issued in Sand Hill’s initial public offering vote against the merger and demand that Sand Hill convert their shares into a pro rata portion of the trust account, then, pursuant to the terms of our certificate of incorporation, the merger will not be consummated. No vote of the holders of any warrants issued by Sand Hill is necessary to adopt the merger proposal, and Sand Hill is not asking the warrant holders to vote on the merger proposal.
- Q. What vote is required in order to adopt the amendment proposal?**
- A.** The adoption of the amendment proposal will require the affirmative vote of a majority of the outstanding shares of Sand Hill’s common stock on the record date. The adoption of the amendment proposal is conditioned upon the adoption of the merger proposal, but the adoption of the merger proposal is not conditioned on the adoption of the amendment proposal.

- Q. What vote is required in order to adopt the stock option plans proposal?**
- A.** The adoption of the stock option plans proposal will require the affirmative vote of a majority of the shares of Sand Hill's common stock present in person or represented by proxy at the special meeting. The adoption of the stock option plans proposal is conditioned on the adoption of the merger proposal.
- Q. What vote is required in order to adopt the adjournment proposal?**
- A.** The adoption of the adjournment proposal will require the affirmative vote of the majority of the shares of Sand Hill's common stock present in person or represented by proxy at the special meeting. The adoption of the adjournment proposal is not conditioned on the adoption of any of the other proposals.
- Q. What will Sand Hill security holders receive in the merger?**
- A.** Sand Hill security holders will continue to hold the Sand Hill securities they currently own, and will not receive any of the shares of common stock, options and warrants issued in connection with the merger. The stockholders of St. Bernard will receive all of the shares of common stock, options and warrants being issued by Sand Hill in the merger.
- Q. What will St. Bernard stockholders, option holders and warrant holders receive in the merger?**
- A.** It is expected that holders of St. Bernard common stock will hold approximately 65.6% of the outstanding shares of Sand Hill common stock immediately following the closing of the merger, based on the number of shares of Sand Hill and St. Bernard common stock outstanding as of October 26, 2005. Under the merger agreement, holders of St. Bernard common stock, options and warrants are entitled to receive their pro rata portion of 10,880,000 shares of Sand Hill common stock, replacement options or replacement warrants to be issued in the merger. No additional consideration will be issued by Sand Hill in the merger. This results in an exchange ratio of 0.421419 shares of Sand Hill common stock or replacement options or warrants for each share of St. Bernard common stock or options or warrants to purchase St. Bernard common stock outstanding. Based upon the number of shares of St. Bernard common stock outstanding and the number of shares issuable for St. Bernard common stock pursuant to outstanding options and warrants as of October 26, 2005, Sand Hill will issue approximately 9,759,600 shares of common stock at the close of the merger and holders of options and warrants to purchase shares of the common stock of St. Bernard will receive, in exchange for those options and warrants, options and warrants to purchase approximately 1,120,400 shares of Sand Hill common stock. To the extent that outstanding St. Bernard options or warrants are exercised prior to the closing of the merger, the number of shares of Sand Hill common stock that would be issued at the closing of the merger would increase and the number of the shares of Sand Hill common stock that would be subject

to replacement options or warrants to be issued at the closing of the merger would decrease by a like amount. In no event will Sand Hill issue shares of common stock or replacement options or warrants for an aggregate amount in excess of 10,880,000 shares, other than with respect to purchase price adjustments, which are not expected to be material. For a complete description of the post-closing fully diluted capitalization of Sand Hill please see “*Beneficial Ownership of Securities*” on page \_\_\_\_.



- Q. What is the structure of the merger?**
- A.** Under the merger agreement, St. Bernard and Sand Hill Merger Corp., a wholly-owned subsidiary of Sand Hill, will merge, with St. Bernard surviving as a wholly-owned subsidiary of Sand Hill (referred to as the merger). The merger is classified as a triangular merger and will be accounted for as an equity recapitalization of St. Bernard for financial reporting purposes.
- Q. How much of the combined company will existing Sand Hill stockholders own?**
- A.** After completion of the merger, if no holders of Sand Hill common stock demand that Sand Hill convert their shares into a pro rata portion of the trust account holding a substantial portion of the net proceeds of Sand Hill's initial public offering, then Sand Hill's stockholders will own 5,110,000 shares of common stock of approximately 34.4% of the combined company's issued and outstanding shares of common stock. If one or more of Sand Hill's stockholders vote against the merger proposal and demand that Sand Hill convert their shares into a pro rata portion of the trust account, then Sand Hill's stockholders will own less than approximately 34.4% of the combined company's issued and outstanding shares of common stock after completion of the merger. In either case, the balance of the issued and outstanding shares of Sand Hill's common stock will be owned by the stockholders of St. Bernard.
- Q. Why is Sand Hill proposing the stock option plans?**
- A.** Sand Hill is proposing the stock option plans because it has agreed to assume the outstanding options of St. Bernard at the closing of the merger and the plans need to remain outstanding under which such options were issued as those plans govern the terms of the options. The adoption of the 2005 Stock Option Plan will also enable the combined company to offer non-employee directors, officers, other key employees and consultants equity-based incentives, thereby helping to attract, retain and reward these participants and create value for the combined company's stockholders.
- Q. What will the name of the combined company be after the merger?**
- A.** Sand Hill will change its name following completion of the merger to St. Bernard Software, Inc.

- Q. How much cash does Sand Hill hold in escrow?**
- A.** As of October 26, 2005, Sand Hill had \$21,565,510 in escrow, which would equate to \$5.25 per share of outstanding Sand Hill common stock eligible to participate in the funds held in escrow.
- Q. Do I have conversion rights?**
- A.** If you hold shares of common stock issued in Sand Hill's initial public offering, then you have the right to vote against the merger proposal and demand that Sand Hill convert these shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill's initial public offering are held. We sometimes refer to these rights to vote against the merger and demand conversion of the shares into a pro rata portion of the trust account as conversion rights.
- Q. If I have conversion rights, how do I exercise them?**
- A.** If you wish to exercise your conversion rights, you must vote against the merger and at the same time demand that Sand Hill convert your shares into cash. If, notwithstanding your vote, the merger is completed, then you will be entitled to receive a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill's initial public offering are held, including any interest earned thereon through the date of the special meeting. Based on the amount of cash held in the trust account on \_\_\_\_\_, 200\_, you will be entitled to convert each share of common stock that you hold into approximately \$\_\_\_\_\_. If you exercise your conversion rights, then you will be exchanging your shares of Sand Hill common stock for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if you continue to hold these shares through the effective time of the merger and then tender your stock certificate to the combined company. If the merger is not completed, then your shares will not be converted to cash at this time, even if you so elected. *See page \_\_\_\_.*
- Q. What happens to the funds deposited in the trust account after consummation of the merger?**
- A.** Upon consummation of the merger:
- the stockholders electing to exercise their conversion rights will receive their pro rata portion of the funds deposited in the trust account; and
  - the remaining funds will be released to the combined company to be used to fund the expansion of the business, including, if appropriate, through strategic acquisitions, for working capital needs and for other general corporate purposes.

- Q. Who will manage the combined company?**
- A.** The combined company will be managed by the current management of St. Bernard. John E. Jones, who is currently the President and Chief Executive Officer of St. Bernard, will become the President and Chief Executive Officer of the combined company. Alfred Riedler, who is currently the Chief Financial Officer of St. Bernard, will become the Chief Financial Officer of the combined company. Bart van Hedel, who is currently on the board of directors of St. Bernard, will continue as a board member of the combined company. Humphrey P. Polanen, who is currently the Chairman of the Board and Chief Executive Officer of Sand Hill, will continue as Chairman of the Board of the combined company. Scott R. Broomfield, who is currently on the board of directors of Sand Hill, will continue as a board member of the combined company.
- Q. What happens if the merger is not consummated?**
- A.** If the merger is not consummated, Sand Hill will continue to search for an operating company to acquire. However, Sand Hill will be liquidated if it does not consummate a business combination by January 27, 2006 or by July 27, 2006, if a letter of intent, agreement in principle or definitive agreement to complete a business combination was executed but not consummated by January 27, 2006. Upon such a liquidation, the net proceeds of our initial public offering held in the trust account, plus any interest earned thereon, will be distributed pro rata to Sand Hill's common stockholders, excluding Sand Hill's initial stockholders who purchased their shares of common stock prior to its initial public offering.
- Q. When do you expect the merger to be completed?**
- A.** It is currently anticipated that the merger will be completed promptly following the special meeting on \_\_\_\_\_, 200\_\_.
- Q. If I am not going to attend the Sand Hill special meeting in person, should I return my proxy card instead?**
- A.** Yes. After carefully reading and considering the information contained in this document, please fill out and sign your proxy card. Then return the enclosed proxy card in the return envelope as soon as possible, so that your shares may be represented at the Sand Hill special meeting.
- Q. What will happen if I abstain from voting or fail to vote?**
- A.** Sand Hill will count a properly executed proxy marked ABSTAIN with respect to a particular proposal as present for purposes of determining whether a quorum is present. For purposes of approval, an abstention or failure to vote will have the same effect as a vote against the merger proposal. However, if you want to convert your shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill's initial public offering are held, you must vote against the merger and make an affirmative election to convert your shares of common stock on the proxy card. An abstention will have the same effect as a vote

against the stock option plans proposal and the adjournment proposal, but a failure to vote will have no effect on the stock option plans proposal and the adjournment proposal, assuming that a quorum for the special meeting is present.

- Q. What do I do if I want to change my vote?**
- A.** Send a later-dated, signed proxy card to Sand Hill prior to the date of the special meeting or attend the special meeting in person and vote. Your attendance alone will not revoke your proxy. You also may revoke your proxy by sending a notice of revocation to Sand Hill at the address of Sand Hill's corporate headquarters, on or before \_\_\_\_\_, 200\_.
- Q. If my shares are held in "street name" by my broker, will my broker vote my shares for me?**
- A.** No. Your broker can vote your shares only if you provide instructions on how to vote. You should instruct your broker to vote your shares, following the directions provided by your broker.
- Q. Who is soliciting my proxy?**
- A.** This proxy is being solicited by the Sand Hill board of directors.
- Q. Who can help answer my questions?**
- A.** If you have questions about the merger, you may write or call Sand Hill IT Securities Acquisition Corp., 3000 Sand Hill Road, Building 1, Suite 240, Menlo Park, California 94025, (650) 926-7022, Attn: Humphrey P. Polanen.

## SUMMARY

*This summary highlights information from this proxy statement/prospectus and may not contain all of the information that is important to you. Accordingly, Sand Hill encourages you to carefully read this entire document, including the Annexes. We encourage you to read the merger agreement, which is attached as Annex A, carefully. It is the legal document that governs the merger and the other transactions contemplated by the merger agreement. It is also described in detail elsewhere in this proxy statement/prospectus. When we refer to the merger agreement in this proxy statement/prospectus we are referring to the merger agreement as it may be amended to the date of the proxy statement/prospectus.*

### The Companies

#### *Sand Hill*

Sand Hill is a Targeted Acquisition Corporation, or TAC, focused on the IT security industry, organized under the laws of the State of Delaware on April 15, 2004. As a TAC, it was formed to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business in a specified industry. On July 30, 2004, Sand Hill successfully consummated an initial public offering of its units, with each unit consisting of one share of common stock and two warrants exercisable for shares of common stock, from which it derived net proceeds of approximately \$22,022,462. The prices of Sand Hill's common stock, warrants to purchase common stock and units (each unit consisting of a share of common stock and two warrants to purchase common stock) are quoted on the Over-the-Counter Bulletin Board under the symbols SHQC for the common stock, SHQCW for the warrants and SHQCU for the units. \$20,961,000 of the net proceeds of the initial public offering were placed in a trust account and will be released to Sand Hill upon consummation of the merger. As of October 26, 2005, Sand Hill had \$21,565,510 in escrow, which equates to \$5.25 per share of outstanding Sand Hill common stock eligible to participate in the funds held in escrow. The balance of the net proceeds of \$1,061,462 has been used and will be used by Sand Hill to pay the expenses incurred in its pursuit of a business combination, including the merger. Other than its initial public offering and the pursuit of a business combination, Sand Hill has not engaged in any business to date. If Sand Hill does not consummate a business combination by the later of 18 months after its initial public offering or 24 months after the consummation of its initial public offering in the event that a letter of intent, an agreement in principle or a definitive agreement to complete a business combination was executed but not consummated within the 18 month period, then, pursuant to our certificate of incorporation, Sand Hill's officers must take all actions necessary to dissolve and liquidate Sand Hill within 60 days. The mailing address of Sand Hill's principal executive office is 3000 Sand Hill Road, Building 1, Suite 240, Menlo Park, California 94025, and its telephone number is (650) 926-7022. Sand Hill's home page on the Internet is at <http://www.sandhillsecurity.com>, but the information on the Sand Hill website is not a part of this proxy statement/prospectus. See "Information about Sand Hill" on page \_\_\_\_.

#### *Sand Hill Merger Corp.*

Sand Hill Merger Corp. is a wholly-owned subsidiary of Sand Hill formed solely for the purpose of the merger. Sand Hill Merger Corp.'s executive office is located at 3000 Sand Hill Road, Building 1, Suite 240, Menlo Park, California 94025, and its telephone number is (650) 926-7022. Sand Hill Merger Corp. will be merged with and into St. Bernard and the separate corporate existence of Sand Hill Merger Corp. will cease upon completion of the merger. St. Bernard will be a wholly-owned subsidiary of Sand Hill upon completion of the merger.

#### *St. Bernard*

St. Bernard Software, Inc is a company organized under the laws of the State of Delaware in April 1995. St. Bernard's predecessor company was originally incorporated in Delaware in 1984. St. Bernard Software is a leading independent supplier of IT security software products and services, with a special emphasis on Secure Content Management, or

SCM, including secure messaging. St. Bernard's products protect businesses, government organizations and educational institutions from cyber attack, improve worker productivity, reduce legal liability and assist in meeting regulatory requirements for data/privacy protection. St. Bernard's network-attached security products are delivered as appliances that connect into the data path between the Internet gateway and a company's local area network. St. Bernard's system security products consist of software that is installed on workstations and servers. St. Bernard has approximately 8,000 customers, primarily comprised of small to medium sized businesses, educational institutions and governmental organizations. The products offered by St. Bernard include Open File Manager, a data protection product; UpdateEXPERT, a patch and settings management product; iPrism, SCM, Internet access management product; and ePrism, SCM, a secure messaging, e-mail filtering product. According to IDC, in September 2005, St. Bernard's iPrism product line was the leading Internet filtering appliance, enabling customers to manage and control employee access to millions of web sites that are updated continuously as part of St. Bernard's fee-based subscription service. St. Bernard's products have a subscription component, which results in adding positive cash flow, via deferred revenue, to St. Bernard's business thereby increasing revenue predictability. St. Bernard's principal offices are located at 15015 Avenue of Science, San Diego, California 92128 and its telephone number at that location is (858) 524-2299. St. Bernard's home page on the Internet is at <http://www.stbernard.com>, but the information on the St. Bernard website is not a part of this proxy statement/prospectus.

## **The Business Rationale for Merging with St. Bernard**

We believe the proposed merger between Sand Hill and St. Bernard is in the best interests of Sand Hill and its stockholders for the following primary reasons:

### ***Industry and Market Focus***

St. Bernard is a leading independent supplier of IT security software products and services, with a special emphasis on Secure Content Management, or SCM, including secure messaging. According to IDC, SCM worldwide revenues reached \$4.5 billion in 2004, representing a 27% increase over 2003. IDC has also concluded that web-filtering, a subset of SCM, reached \$433 million in revenues in 2004, growing at 22% over 2003. Finally, IDC forecasts that the rate of growth for 'appliance based web-filtering', the portion of the market in which St. Bernard competes in, should increase by 47% between 2004 and 2009. According to IDC, appliances represent the fastest growing element of SCM. In addition to this market segment, St. Bernard also includes secure messaging as part of its product offerings, thereby adding to the value of its business offerings.

St. Bernard focuses on the relatively underserved and high growth Small to Medium Enterprises (or SME) segment of the market. As estimated by AMI-Partners, an SME oriented research firm, there are 232,000 small to medium sized businesses in the U.S. The SME segment is defined as businesses ranging from 50 to 999 employees. According to a study by AMI conducted in 2005, the SME segment is underserved, or under penetrated, in that only 22% of all small to medium sized businesses have installed comprehensive security management solutions. We believe that this indicates that there is real opportunity for growth in this segment. According to this same AMI report, a total of an additional 15% of the SME market, or 35,000 businesses, plan to purchase security management solutions in 2006, representing a growth rate of 73% year over year. We also additionally believe that the focus on SME is beneficial because security appliances tend to serve the market well because of their ease of installation and use. Brian Burke, an analyst with IDC research recently stated, "... security appliance sales will grow fast in the SME market because IT resources are scarce."

### ***Growth***

St. Bernard has recently experienced attractive growth in its market. From 2000 to the end of 2004, St. Bernard has grown 182% based on revenue and was awarded a Deloitte "Technology Fastest 50" award. Specifically, for the nine months ended September 30, 2005, St. Bernard's revenue totaled \$18.1 million, an increase of 16.0% as compared to the same period in 2004. For the quarter ended September 30, 2005, St. Bernard's revenue was 41% higher than in the same quarter last year.

### ***Business Model***

St. Bernard has a business model that includes both web-filter and email-filter appliances and a database service subscription component. St. Bernard's revenue model includes revenue from appliance sales and multi-year subscription for software/database updates and ePrism (secure messaging - e-mail filtering), are easy to install and easy to use, which makes the sales cycle shorter than an "enterprise" level sale.



The subscription element of St. Bernard's business is particularly attractive because it operates as a "Software as a Service", or a "SaaS" model. We believe that this represents a stable portion of the revenue base. As an example, customers subscribe to a URL database service for periods of anywhere from 1 to 3 years. This URL database is organized into more than 60 categories and encompasses more than 6 million websites as of September 30, 2005. This database is updated each business day using a proprietary process of automated content assessment and classification, with manual verification. Subscribers to the update service receive updates each night. It is this security update subscription that we believe helps create long term customer relationships, as well as providing for better predictability of future revenue. St. Bernard had deferred revenues of \$15.2 million as of September 30, 2005. Although the cash is received up front, this deferred revenue is generally recognized as revenue ratably over the life of the contract. The result is that billings for the business are greater than the revenue booked in any quarter. For example, revenue for the nine months ending September 30, 2005 was \$18.1 million, whereas billings were \$21.5 million. The result is an increase to deferred revenue, as recorded on the balance sheet, and, we believe, an enhanced predictability to the business.

#### *Management Team*

St. Bernard has a seasoned management team with specialized knowledge of its markets and, we believe, the ability to lead the combined company in a changing environment. St. Bernard's management team has been in place for a number of years and the Sand Hill board of directors believes that John E. Jones, who will be the President and Chief Executive Officer of the combined company, has the experience and strong understanding of the software security market and potential needs of customers to effectively lead the combined company.

#### *Terms of the Merger Agreement*

We believe that the transaction is efficiently structured, attractively valued as compared against weighted industry averages and contains customary provisions for transactions of this type, including provisions to protect Sand Hill in the event an alternative transaction is proposed to St. Bernard. It was important to the Sand Hill board of directors that the merger agreement include customary provisions as we believe that such provisions will allow for a more efficient closing process and lower transaction expenses.

Please see "*The Merger Proposal - Sand Hill Reasons for the Merger*" on page \_\_\_\_.

#### **Security Market Characteristics and Industry Background**

The IT security market continues to be attractive from a business perspective, and is generally characterized by the following:

- escalating volume of Internet attacks on business, industry and government, reaching over 140,000 attacks in 2004;
- increasing sophistication of attacks and increasing cost per attack;
- material loss in employee productivity due to unauthorized Internet usage during working hours;
- significant recent increases in government and regulatory requirements specifically targeting security, including but not limited to, Sarbanes-Oxley (SOX), HIPPA, BASEL II, Gramm-Leach-Bliley, GISRA, etc;
- increases in customer demand for integrated, full solution product suites, and;
- a strong preference in SME for easy to install and easy to use security appliances.

Many organizations use the Internet to enable critical business applications that are accessed over their corporate networks. Many employees also use their organization's computing resources for recreational "web surfing," peer-to-peer file sharing, downloading of high-bandwidth content, instant messaging and other personal matters. However, unmanaged use of organizational computing and network resources, including Internet access, results in increased risk and cost to the organization, including increased security risks, loss of intellectual property, loss of a company's customer and supplier data, lost employee productivity, increased network bandwidth consumption, and potential legal liability. This segment of IT security is commonly known as Secured Content Management, or SCM.

Traditionally, organizations have attempted to mitigate the legal liability, productivity and bandwidth waste risks through written policies governing acceptable employee use of computing resources, and they have sought to protect against external security risks with a combination of firewalls, intrusion detection/prevention software and anti-virus software. With the growth in spyware, key logging applications, and phishing sites, combined with the rapid increase in employee use of instant messaging and peer-to-peer file sharing and the proliferation of blended attacks on computing networks, organizations are finding that existing security measures leave significant time and technology gaps in their protection. Written Internet access and software application use policies are easily ignored, difficult to enforce and do not proactively curtail undesirable Internet and software application usage. Firewalls can provide protection against external threats such as hacking, but do little to prevent employees from accessing unauthorized data from within an organization. Anti-virus software provides protection from e-mail borne viruses, but does not prevent the possible theft or corruption of corporate data by spyware and offers only limited protection against viruses that proliferate via peer-to-peer networks and instant messaging. Existing anti-virus and anti-spyware software also requires time to identify and reverse engineer the virus or spyware application before it can be remediated and removed from infected systems.

Given the necessity of corporate Internet access and the continuing adoption of the web as a mass communication, entertainment, information and commerce medium, we believe there is a significant opportunity for SCM solutions, including secure messaging, that effectively addresses the needs of organizations to manage employee usage of the computing environment, including Internet access and desktop application use. Additionally, although the web and e-mail are the primary drivers of Internet traffic today, the rapid emergence of Internet-enabled applications creates the need for software that applies management policies to file types, applications, and protocols, as well as web pages, at multiple points on the information technology infrastructure. Software tools are needed to implement policy-based bandwidth management and regulation of applications such as instant messaging, peer-to-peer file exchange tools, interactive games and desktop software applications. These solutions must also be adaptable enough to manage new applications and technologies as they are developed.

## **The Merger**

The merger agreement provides for the merger of Sand Hill Merger Corp. with and into St. Bernard. The merger agreement was executed on October 26, 2005 and amended on December \_\_, 2005. Following consummation of the merger, St. Bernard will continue as the surviving company and a wholly-owned subsidiary of Sand Hill and the separate corporate existence of Sand Hill Merger Corp. shall cease. It is expected that holders of St. Bernard common stock will hold approximately 65.6% of the outstanding shares of Sand Hill common stock immediately following the closing of the merger, based on the number of shares of Sand Hill and St. Bernard common stock outstanding as of October 26, 2005. Under the merger agreement, holders of St. Bernard common stock, options and warrants are entitled to receive their pro rata portion of 10,880,000 shares of Sand Hill common stock, replacement options or replacement warrants to be issued in the merger. No additional consideration will be issued by Sand Hill in the merger. This results in an exchange ratio of 0.421419 shares of Sand Hill common stock or replacement options or warrants for each share of St. Bernard common stock or options or warrants to purchase St. Bernard common stock outstanding. Based upon the number of shares of St. Bernard common stock outstanding and the number of shares issuable for St. Bernard common stock pursuant to outstanding options and warrants as of October 26, 2005, Sand Hill will issue approximately 9,759,600 shares of common stock at the close of the merger and holders of options and warrants to purchase shares of the common stock of St. Bernard will receive, in exchange for those options and warrants, options and warrants to purchase approximately 1,120,400 shares of Sand Hill common stock. To the extent that outstanding St. Bernard options or warrants are exercised prior to the closing of the merger, the number of shares of Sand Hill common stock that would be issued at the closing of the merger would increase and the number of the shares of Sand Hill common stock that would be subject to replacement options or warrants to be issued at the closing of the merger would decrease by a like amount. In no event will Sand Hill issue shares of common stock or replacement options or warrants for an aggregate amount in excess of 10,880,000 shares, other than with respect to purchase price adjustments, which are not expected to be material. For a complete description of the post-closing fully diluted capitalization of Sand Hill please see "*Beneficial Ownership of Securities*" on page \_\_.



Sand Hill and St. Bernard plan to complete the merger promptly after the special meeting, provided that:

- Sand Hill's stockholders have adopted the merger agreement;

holders of less than 20% of the shares of common stock issued in Sand Hill's initial public offering vote against the merger proposal and demand conversion of their shares of common stock into cash; and

- the other conditions specified in the merger agreement have been satisfied or waived.

If the Sand Hill stockholder approval has not been obtained at that time or any other conditions have not been satisfied or waived, the merger will be completed promptly after the stockholder approval is obtained or the remaining conditions are satisfied or waived. The merger will become effective when the articles of merger are filed with the Delaware Secretary of State or at such later time as is specified in the articles of merger.

The merger agreement is included as Annex A to this document. We encourage you to read the merger agreement in its entirety. See "*The Merger Agreement*" on page \_\_\_\_.

### **Amended and Restated Certificate of Incorporation**

Sand Hill is proposing to amend its certificate of incorporation to change the name of Sand Hill to St. Bernard Software, Inc. and to remove certain provisions related to a business combination that were put in place as a result of our being a Targeted Acquisition Corporation. The Amended and Restated Certificate of Incorporation is included as Annex B to this document. We encourage you to read the amended and Restated Certificate of Incorporation in its entirety. See "*The Amendment Proposal*."

### **St. Bernard Software, Inc. 1992 Stock Option Plan; St. Bernard Software, Inc. 2000 Stock Option Plan; St. Bernard Software, Inc. 2005 Stock Option Plan**

There are options outstanding for the purchase of St. Bernard common stock which have been granted under three stock option plans: the St. Bernard Software, Inc. 1992 Stock Option Plan; the St. Bernard Software, Inc. 2000 Stock Option Plan; and the St. Bernard Software, Inc. 2005 Stock Option Plan. The stock option plans are included as Annex B, Annex C and Annex D to this document. We encourage you to read the stock option plans in their entirety. See "*The Stock Option Plans Proposal*."

#### *St. Bernard Software, Inc. 1992 Stock Option Plan*

Under the terms of the merger agreement, at the effective time of the merger, each outstanding option to purchase shares of St. Bernard common stock that has been granted under St. Bernard's 1992 Stock Option Plan, whether vested or unvested, will be assumed by Sand Hill and become an option to acquire, on the same terms and conditions as were applicable under the 1992 Stock Option Plan immediately prior to the effective time of the merger, an option to purchase shares of Sand Hill common stock. The number of shares of Sand Hill common stock for which each option will be exercisable will be determined by multiplying the number of shares of St. Bernard common stock for which such option was exercisable by a conversion ratio of 0.421419. The exercise price per share of Sand Hill common stock at which each such option will be exercisable will be determined by dividing the exercise price per share of St. Bernard common stock at which this option was exercisable by the conversion ratio of 0.421419. There are options for 200,500 shares of St. Bernard common stock issued and outstanding under the 1992 Stock Option Plan. No additional options are available for issuance under the plan.

*St. Bernard Software, Inc. 2000 Stock Option Plan*

Under the terms of the merger agreement, at the effective time of the merger, each outstanding option to purchase shares of St. Bernard common stock that has been granted under St. Bernard's 2000 Stock Option Plan, whether vested or unvested, will be assumed by Sand Hill and become an option to acquire, on the same terms and conditions as were applicable under the 2000 Stock Option Plan immediately prior to the effective time of the merger, an option to purchase shares of Sand Hill common stock. The number of shares of Sand Hill common stock for which each option will be exercisable will be determined by multiplying the number of shares of St. Bernard common stock for which such option was exercisable by a conversion ratio of 0.421419. The exercise price per share of Sand Hill common stock at which each such option will be exercisable will be determined by dividing the exercise price per share of St. Bernard common stock at which this option was exercisable by the conversion ratio of 0.421419. There are options for 995,119 shares of St. Bernard common stock issued and outstanding under the 2000 Stock Option Plan. No additional options are available for issuance under the plan.

*St. Bernard Software, Inc. 2005 Stock Option Plan*

Under the terms of the merger agreement, at the effective time of the merger, each outstanding option to purchase shares of St. Bernard common stock that has been granted under St. Bernard's 2005 Stock Option Plan, whether vested or unvested, will be assumed by Sand Hill and become an option to acquire, on the same terms and conditions as were applicable under the 2005 Stock Option Plan immediately prior to the effective time of the merger, an option to purchase shares of Sand Hill common stock. The number of shares of Sand Hill common stock for which each option will be exercisable will be determined by multiplying the number of shares of St. Bernard common stock for which such option was exercisable by a conversion ratio of 0.421419. The exercise price per share of Sand Hill common stock at which each such option will be exercisable will be determined by dividing the exercise price per share of St. Bernard common stock at which this option was exercisable by the conversion ratio of 0.421419. There are options for 298,000 shares of St. Bernard common stock issued and outstanding under the 2005 Stock Option Plan. Options for 4,702,000 shares of St. Bernard common stock may be issued under the plan in the future.

**Adjournment Proposal**

In the event there are not sufficient votes at the time of the special meeting to approve the merger proposal or the stock option plans proposal, the board of directors may submit a proposal to adjourn the special meeting to a later date or dates, if necessary, to permit further solicitation of proxies.

**Sand Hill's Board of Directors' Recommendations**

After careful consideration, Sand Hill's board of directors has determined unanimously that the merger proposal, the stock option plans proposal and the adjournment proposal are fair to, and in the best interests of, Sand Hill and its stockholders. Sand Hill's board has unanimously approved and declared advisable the merger agreement and the transactions contemplated by the merger agreement, the amendment proposal, the stock option plans proposal and the adjournment proposal and unanimously recommends that you vote or instruct your vote to be cast "**FOR**" the adoption of the merger agreement, the amendment proposal, the stock option plans proposal and the adjournment proposal. Please see "*The Merger Proposal - Sand Hill Reasons for the Merger*" on page \_\_\_\_.

**Special Meeting of Sand Hill's Stockholders**

The special meeting of the stockholders of Sand Hill will be held at \_\_\_\_\_ on \_\_\_\_\_, 200\_\_\_\_, at \_\_\_\_\_, Suite \_\_\_\_\_, \_\_\_\_\_, California \_\_\_\_\_, to vote on the merger proposal, the stock option plans proposal and the adjournment proposal.

**Voting Power; Record Date**

You will be entitled to vote or direct votes to be cast at the special meeting if you owned shares of Sand Hill common stock at the close of business on \_\_\_\_\_, 200\_\_, which is the record date for the special meeting. You will have one vote for each share of Sand Hill common stock you owned at the close of business on the record date. Sand Hill warrants do not have voting rights. At the close of business on October 26, 2005, there were 5,110,000 shares of Sand Hill common stock outstanding, which includes 414,861 shares of common stock issued as part of units that were issued in our initial public offering, as shown on the records of Sand Hill's transfer agent.

### **Vote Required to Adopt the Merger Proposal**

The adoption of the merger agreement and the transactions contemplated by the merger agreement will require the affirmative vote of the holders of a majority of the outstanding shares of Sand Hill common stock on the record date. However, Sand Hill will not be able to complete the merger if the holders of 20% or more of the shares of common stock issued in Sand Hill's initial public offering vote against the merger and demand that Sand Hill convert their shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill's initial public offering are held.

### **Vote Required to Adopt the Amended and Restated Certificate of Incorporation**

The adoption of the amendment proposal will require the affirmative vote of a majority of the outstanding shares of Sand Hill's common stock on the record date. The adoption of the amendment proposal is conditioned upon the adoption of the merger proposal, but the adoption of the merger proposal is not conditioned on the adoption of the amendment proposal.

### **Vote Required to Adopt the Stock Option Plans Proposal**

The adoption of the stock option plans proposal will require the affirmative vote of the holders of a majority of the shares of Sand Hill common stock present in person or represented by proxy at the special meeting. The adoption of the stock option plans proposal is conditioned on the adoption of the merger proposal.

### **Vote Required to Adopt the Adjournment Proposal**

The adoption of the adjournment proposal will require the affirmative vote of the holders of a majority of the shares of Sand Hill common stock present in person or represented by proxy at the special meeting. The adoption of the adjournment proposal is not conditioned on the adoption of any of the other proposals.

### **Conversion Rights**

Pursuant to Sand Hill's certificate of incorporation, a holder of shares of Sand Hill's common stock issued in its initial public offering may, if the stockholder votes against the merger, demand that Sand Hill convert such shares into cash. **This demand must be made on the proxy card or by telephone or through the Internet as described on the proxy card at the same time that the stockholder votes against the merger proposal.** If so demanded, Sand Hill will convert each share of common stock into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill's initial public offering are held, plus all interest earned thereon. If you exercise your conversion rights, then you will be exchanging your shares of Sand Hill common stock for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if you continue to hold these shares through the effective time of the merger and then tender your stock certificate to the combined company. If the merger is not completed, then these shares will not be converted into cash at this time.

The merger will not be consummated if the holders of 20% or more of the shares of common stock issued in Sand Hill's initial public offering exercise their conversion rights.

### **Appraisal or Dissenters Rights**

No appraisal rights or dissenters rights are available under the Delaware General Corporation Law for the stockholders of Sand Hill in connection with the merger proposal.



## Voting

You may vote in person at the special meeting or vote by proxy using the enclosed proxy card or via the Internet or telephone.

- To vote in person, come to the special meeting, and you will be given a ballot when you arrive.

• To vote by proxy, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card before the special meeting, your shares will be voted as you direct.

• If you are a registered stockholder (that is, if you hold your stock in certificate form), you may vote by telephone or electronically through the Internet by following the instructions included with your proxy card. If your shares are held in "street name," please check your proxy card or contact your broker or nominee to determine whether you will be able to vote by telephone or electronically. The deadline for voting by telephone or electronically is 11:59 p.m., Eastern Standard Time, on \_\_\_\_\_.

Please also see the instructions included with the enclosed proxy card. Regardless of whether you return your proxy card, you may attend the special meeting and vote your shares in person.

## Stock Ownership

On the record date, directors and executive officers of Sand Hill and their affiliates beneficially owned and were entitled to vote approximately 1,000,000 shares of Sand Hill's common stock that have a market value of approximately \$5,270,000 based on Sand Hill's common stock price of \$5.27 per share as of October 26, 2005. The total of these shares represented approximately 19.6% of Sand Hill's issued and outstanding common stock as of the record date. In connection with its initial public offering, the holders of these shares entered into letter agreements with Sand Hill, pursuant to which each agreed to vote their shares of Sand Hill common stock purchased prior to the initial public offering on the merger proposal in the same manner as how a majority of the shares of common stock held by all other Sand Hill stockholders are voted on the merger proposal. They are entitled to vote the shares acquired by them in or subsequent to the initial public offering as they see fit and have indicated that they will vote the shares acquired by them in or subsequent to the initial public offering as they see fit and have indicated that they will vote the shares acquired by them in or subsequent to the initial public offering, representing approximately \_\_\_\_% of the outstanding common stock, in favor of the merger proposal. Based solely upon information contained in public filings, as of December 12, 2005, the following stockholders beneficially owned greater than five percent of Sand Hill's issued and outstanding common stock:

• Humphrey P. Polanen and his affiliates beneficially owned 559,441 shares of Sand Hill common stock, representing approximately 10.9% of the Sand Hill common stock outstanding on the record date;

• Sapling, LLC beneficially owned 400,000 shares of Sand Hill common stock, representing approximately 7.8% of the shares of Sand Hill common stock outstanding on the record date; and

• Amaranth, LLC beneficially owned 299,098 shares of Sand Hill common stock, representing approximately 5.8% of the shares of Sand Hill common stock outstanding on the record date.

## Interests of Sand Hill Directors and Officers in the Merger

When you consider the recommendation of Sand Hill's board of directors that you vote in favor of adoption of the merger proposal, you should keep in mind that a number of Sand Hill's executives and members of Sand Hill's board have interests in the merger that are different from, or in addition to, your interests as a Sand Hill stockholder. These interests include, among other things:

if the merger is not approved and Sand Hill fails to consummate an alternative transaction within the time allotted pursuant to its certificate of incorporation and Sand Hill is therefore required to liquidate, the shares of common stock purchased prior to its initial public offering and held by Sand Hill's executives and directors may be worthless because Sand Hill's executives and directors are not entitled to receive any of the net proceeds of Sand Hill's initial public offering that may be distributed upon liquidation of Sand Hill with respect to these shares. In addition, the warrants held by such persons will expire without value in the event of a liquidation;

after the completion of the merger, Humphrey P. Polanen will remain as the chairman of the board of directors of the combined company and Scott Broomfield will remain as a director of the combined company; and

if Sand Hill liquidates prior to the consummation of a business combination, Humphrey P. Polanen, chairman of the board and chief executive officer, will be personally liable to pay debts and obligations, if any, to vendors and other entities that are owed money by Sand Hill for services rendered or products sold to Sand Hill in excess of the net proceeds of Sand Hill's initial public offering not held in the trust account.

### Interests of Officers and Directors of St. Bernard in the Merger

You should understand that some of the current officers and directors of St. Bernard have interests in the merger that are different from, or in addition to, your interest as a Sand Hill stockholder. These interests include, among other things:

After the completion of the merger, several of the present directors of St. Bernard, specifically, Messrs. John E. Jones, Bart van Hedel and a third person yet to be named will remain as directors of the combined company.

After the completion of the merger, the current officers of St. Bernard Software will remain as officers of the combined company.

The directors and executive officers of St. Bernard hold stock options granted to them under various St. Bernard Stock Option Plans. Under the terms of the merger agreement, at the effective time of the merger, each outstanding option to purchase shares of St. Bernard common stock that has been granted under St. Bernard's 1992, 2000 and 2005 Stock Plans, whether vested or unvested, will be fully accelerated pursuant to its terms, and assumed by Sand Hill and become an option to acquire, on the same terms and conditions as were applicable under the applicable stock plan immediately prior to the effective time of the merger, an option to purchase shares of Sand Hill common stock. The number of shares of Sand Hill common stock for which each option will be exercisable will be determined by multiplying the number of shares of St. Bernard common stock for which such option was exercisable by a conversion ratio of 0.421419. The exercise price per share of Sand Hill common stock at which each such option will be exercisable will be determined by dividing the exercise price per share of St. Bernard common stock at which this option was exercisable by the conversion ratio of 0.421419.

The table below sets forth, as of September 30, 2005, information with respect to options under the 1992 Stock Option Plan, 2000 Stock Option Plan and 2005 Stock Option Plan held by each of St. Bernard's current executive officers and directors.

### STOCK OPTIONS ISSUED TO OFFICERS AND DIRECTORS OF ST. BERNARD SOFTWARE<sup>1</sup>

Name	Number of Options Held	Number of Options Vested	Number of Unvested Options Held
<b>Mr. John E. Jones</b> , Chief Executive Officer, President and Director	170,000	153,333	16,667
<b>Mr. Bart A.M. van Hedel</b> , Director	95,000	82,778	12,222
<b>Mr. Robert G. Copeland</b> , Director	95,000	82,778	12,222
<b>Mr. Mel Lavitt</b> , Director	34,723	23,735	10,988
<b>Mr. Al Riedler</b> , Chief Financial Officer	94,167	51,081	43,086

<sup>1</sup> The following table sets forth the aggregate total number of options granted by St. Bernard to the individuals listed herein. Each of the individuals listed received multiple option grants from St. Bernard, at various exercise prices depending on the date of grant. The exercise prices for the option grants range from \$0.11/per share to \$0.50/per share.

### Conditions to the Completion of the Merger

Each of Sand Hill's and St. Bernard's obligation to effect the merger is subject to the satisfaction or waiver of specified conditions before completion of the merger, including the following:

#### *Conditions to Sand Hill's and St. Bernard's obligation*

- The receipt of the Sand Hill stockholder approval;
- The receipt of the St. Bernard stockholder approval;

the effectiveness of the registration statement pursuant to which the shares of Sand Hill's common stock have been registered with the U.S. Securities and Exchange Commission, and the absence of a stop order suspending the effectiveness of the registration statement or the use of this proxy statement/prospectus, or any proceedings for such purposes;

- the absence of any order or injunction preventing consummation of the merger;

the absence of any suit or proceeding by any governmental entity or any other person challenging the merger or seeking to obtain from St. Bernard, Sand Hill or Sand Hill Merger Corp. any damages;

at the Sand Hill special meeting, holders of less than 20% of the shares of common stock issued in Sand Hill's initial public offering will have voted against the adoption of the merger proposal and demanded that Sand Hill convert their shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill's initial public offering are held;

at the time of consummation of the merger, the board of directors of Sand Hill must determine that the fair market value of St. Bernard is at least 80% of the net assets of Sand Hill; and

at the time of consummation of the merger, Sand Hill must have at least \$21,350,000, plus accrued interest from July 31, 2005, in the trust account.

#### *Conditions to Sand Hill's obligation*

The obligation of Sand Hill and Sand Hill Merger Corp. to effect the merger are further subject to the following conditions:

- St. Bernard's representations and warranties in the merger agreement that are qualified as to materiality must be true and correct and those not qualified as to materiality must be true and correct in all material respects, as of the date of completion of the merger, except for representations and warranties in the merger agreement that address matters as of another date, which must be true and correct as of that other date, and Sand Hill must have received a certificate from the chief executive officer and the chief financial officer of St. Bernard to that effect;



St. Bernard must have performed in all material respects all obligations required to be performed by it under the merger agreement and Sand Hill must have received a certificate from the chief executive officer and the chief financial officer of St. Bernard to that effect;

- there must not have occurred since the date of the merger agreement any material adverse effect on St. Bernard;

St. Bernard, the escrow agent and the other parties signatory to the Escrow Agreement shall have executed and delivered the Escrow Agreement;

each of the affiliates of St. Bernard shall have executed and delivered a written agreement substantially in the form attached to the merger agreement;

- each of the executive officers and directors of St. Bernard shall have executed a lock-up agreement;

counsel for St. Bernard shall have delivered a legal opinion substantially in the form attached to the merger agreement; and

- St. Bernard shall have obtained any necessary third-party consents to the merger.

#### *Conditions to St. Bernard's obligation*

The obligation of St. Bernard to effect the merger is further subject to the following conditions:

Sand Hill's and Sand Hill Merger Corp.'s representations and warranties in the merger agreement that are qualified as to materiality must be true and correct and those not qualified as to materiality must be true and correct in all material respects, as of the date of completion of the merger, except for representations and warranties that address matters as of another date, which must be true and correct as of that date, and St. Bernard must have received a certificate from the chief executive officer and the chief financial officer of Sand Hill to that effect;

Sand Hill and Sand Hill Merger Corp. must have performed in all material respects all obligations required to be performed by them under the merger agreement and St. Bernard must have received a certificate from the chief executive officer and the chief financial officer of Sand Hill to that effect;

- there must not have occurred since the date of the merger agreement any material adverse effect on Sand Hill;

Sand Hill, the escrow agent, and the other parties to be signatory to the Escrow Agreement shall have executed and delivered the Escrow Agreement; and

St. Bernard shall have received a written opinion from Duane Morris LLP, counsel to St. Bernard, dated on or before the closing date, to the effect that the merger will constitute a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

If permitted under applicable law, either St. Bernard or Sand Hill may waive conditions for the benefit of itself and its stockholders and complete the merger even though one or more of these conditions have not been met. We cannot assure you that all of the conditions will be satisfied or waived or that the merger will occur.

## No Solicitation

The merger agreement contains detailed provisions prohibiting each of St. Bernard and Sand Hill from seeking an alternative transaction. The no solicitation covenant of St. Bernard generally prohibits St. Bernard, as well as its officers, directors, employees, representatives or agents, from taking any action to solicit an acquisition proposal as described on pages 42-43 of the merger agreement. The merger agreement does not, however, prohibit St. Bernard from considering a superior proposal from a third party in the circumstances described under “*The Merger Agreement—No Solicitation by St. Bernard*” on page \_\_\_\_\_. The no solicitation covenant of Sand Hill generally prohibits Sand Hill, as well as its stockholders, officers, directors, employees, representatives or agents, from taking any action to solicit an acquisition proposal as described on pages 46-47 of the merger agreement. The merger agreement does not, however, prohibit Sand Hill from engaging in discussions or issuing indications of interest to parties in the IT security industry under certain conditions, as long as Sand Hill does not enter into or negotiate the terms of a letter of intent or similar agreement related to a business combination until after certain conditions have been met as described under “*The Merger Agreement - No Solicitation by Sand Hill*” on page \_\_\_\_\_.

## Termination

The merger agreement may be terminated at any time prior to the consummation of the merger, whether before or after receipt of the Sand Hill stockholder approval, by mutual written consent of Sand Hill, Sand Hill Merger Corp. and St. Bernard.

### *Termination by either St. Bernard or Sand Hill*

Either St. Bernard or Sand Hill may terminate the merger agreement if:

- the merger is not consummated on or before June 30, 2006;
- any governmental entity issues an order, decree or ruling or takes any other action permanently enjoining, restraining or otherwise prohibiting the merger and such order, decree, ruling or other action will have become final and nonappealable;
- any condition to the obligation of such party to consummate the merger becomes incapable of satisfaction prior to June 30, 2006; or
- at the special meeting, the Sand Hill stockholder approval is not obtained or the holders of 20% or more of the shares of common stock issued in Sand Hill’s initial public offering have voted against the merger and demanded that Sand Hill convert their shares into cash pursuant to the terms of Sand Hill’s certificate of incorporation.

### *Termination by Sand Hill*

Sand Hill may terminate the merger agreement if:

- St. Bernard breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in the merger agreement which breach or failure to perform would give rise to the failure of specified conditions in the merger agreement and cannot be or has not been cured within 30 days after the giving of written notice to St. Bernard of such breach or by June 30, 2006, if earlier;
- a special meeting of the St. Bernard stockholders is not held within 25 days after the effective date of the registration statement of which this proxy statement/prospectus is a part;
- at the special meeting of St. Bernard’s stockholders, the St. Bernard stockholders do not approve the merger;





- St. Bernard's board of directors has withdrawn or adversely modified its recommendation in favor of the merger;
- St. Bernard's board of directors has failed to include its recommendation in favor of the merger in its proxy statement to its stockholders;
- St. Bernard's board of directors has approved an alternative acquisition proposal, which is a transaction where any person has or will acquire 15% or more of St. Bernard's voting power or assets that account for 15% or more of St. Bernard's net revenues, net income or assets; or
- St. Bernard's board of directors determines that it has received a superior proposal, which is an alternative acquisition proposal that St. Bernard's board of directors determines in good faith is superior to the merger with Sand Hill and that it is required to submit such alternative proposal to its stockholders in the exercise of its fiduciary duties.

*Termination by St. Bernard*

St. Bernard may terminate the merger agreement if:

- Sand Hill breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in the merger agreement which breach or failure to perform would give rise to the failure of specified conditions in the merger agreement and cannot be or has not been cured within 30 days after the giving of written notice to Sand Hill of such breach or by June 30, 2006, if earlier;
- A special meeting of the Sand Hill stockholders is not held within 60 days after the effective dates of the registration statement of which this proxy statement/prospectus is a part;
  - At the special meeting of the Sand Hill stockholders, the Sand Hill stockholders do not approve the merger;
  - Sand Hill's board of directors has withdrawn or adversely modified its recommendation in favor of the merger;
- Sand Hill's board of directors has failed to include its recommendation in favor of the merger in its proxy statement to its stockholders;
- Sand Hill's board of directors has approved an alternative acquisition proposal, which is a transaction where any person has or will acquire 15% or more of Sand Hill's voting power or assets that account for 15% or more of sand Hill's net revenues, net income or assets; or
- Sand Hill's board of directors determines that it has received a superior proposal, which is an alternative acquisition proposal that Sand Hill's board of directors determines in good faith is superior to the merger with St. Bernard and that it is required to submit such alternative proposal to its stockholders in the exercise of its fiduciary duties.

**Termination Fee; Expenses**

Under certain conditions St. Bernard has agreed to pay Sand Hill a termination fee of \$1,750,000, net of any expenses already reimbursed by St. Bernard to Sand Hill, and each of Sand Hill and St. Bernard has agreed to pay the expenses of the other incurred in connection with the merger agreement, up to \$300,000, if the merger agreement is terminated in the circumstances described under the "*The Merger Agreement—Termination Fee and Expenses*" on page \_\_\_\_ hereof.

## **Quotation or Listing**

Sand Hill's outstanding common stock, warrants and units are currently quoted on the Over-the-Counter Bulletin Board. Sand Hill will use its best efforts to cause its outstanding shares of common stock and warrants and the shares of common stock to be issued in the merger to be approved for quotation on the Nasdaq Stock Market or, if they are not eligible for quotation on Nasdaq, to be listed on the American Stock Exchange, shortly after the consummation of the merger.

## **Amendment and Restatement of Sand Hill Certificate of Incorporation**

As part of the merger agreement Sand Hill agreed to amend and restate the Sand Hill certificate of incorporation to, among other things, remove the provisions related to the holders of shares issued in Sand Hill's initial public offering and the provisions related to a business combination. The amended and restated Sand Hill certificate of incorporation is attached to this document as *Annex B*. The changes to the Sand Hill certificate of incorporation will not be effective unless the merger is completed.

## **Officers and Directors After the Merger**

The combined company will be managed by the current management of St. Bernard. John E. Jones, who is currently the President and Chief Executive Officer of St. Bernard, will become the President and Chief Executive Officer of the combined company. Al Riedler, who is currently the Chief Financial Officer of St. Bernard, will become the Chief Financial Officer of the combined company. Bart van Hedel, who is currently on the board of directors of St. Bernard, will continue as a board member of the combined company. Humphrey P. Polanen, who is currently the Chairman of the Board and Chief Executive Officer of Sand Hill, will continue as Chairman of the Board of the combined company. Scott R. Broomfield, who is currently on the board of directors of Sand Hill, will continue as a board member of the combined company. Sand Hill and St. Bernard will agree on who the other members of the board of directors of the combined company will be prior to the effective time of the merger.

## **Indemnification and Stock Escrow Agreement**

At the time of the consummation of the merger, Sand Hill will deposit with a mutually acceptable escrow agent ten percent (10%) of the shares of common stock of Sand Hill to be issued in the merger. If, within 270 days of the date of the consummation of the merger, Sand Hill asserts a claim that St. Bernard breached any representation or warranty in the merger agreement, or covenant requiring performance prior to the consummation of the merger, then, subject to the resolution or arbitration of such claim in favor of Sand Hill, the escrow agent will return to Sand Hill a portion of the shares of Sand Hill common stock held in escrow with a value equal to the damages caused by such breach, up to a maximum of the total number of shares of Sand Hill common stock held in escrow. The number of shares to be returned will be based on a per share price of \$5.10. The escrowed shares will only be available to satisfy Sand Hill claims that are made within 270 days after the completion of the merger. Two hundred seventy days after completion of the merger any remaining escrowed shares that have not been used to satisfy indemnification claims by Sand Hill will be released to the former stockholders of St. Bernard. The complete text of the stock escrow agreement that will govern these matters is attached as Exhibit E of Annex A. We encourage all stockholders to read the stock escrow agreement in its entirety.

## **Material United States Federal Income Tax Consequences of the Merger**

No gain or loss will be recognized by the stockholders of Sand Hill pursuant to the merger who do not exchange their shares of Sand Hill common stock pursuant to the merger, continue to own such shares of Sand Hill, and do not exercise their conversion rights. A stockholder of Sand Hill who exercises their conversion rights and effects a termination of the stockholder's interest in Sand Hill will generally be required to recognize gain or loss upon the exchange of that stockholder's shares of Sand Hill common stock for cash. Such gain or loss will be measured by the

difference between the amount of cash received and the tax basis of that stockholder's shares of Sand Hill common stock. This gain or loss will generally be capital gain or capital loss if the stockholder held the exchanged shares as a capital asset on the date of the merger and that capital gain or loss and will be a long-term capital gain or loss if the holding period for the shares of Sand Hill common stock is more than one year.

### **Accounting Treatment**

The merger will be accounted for under the reverse acquisition application of the equity recapitalization method of accounting in accordance with U.S. generally accepted accounting principles for accounting and financial reporting purposes. Under this method of accounting, Sand Hill will be treated as the “acquired” company for financial reporting purposes. In accordance with guidance applicable to these circumstances, the merger will be considered to be a capital transaction in substance. Accordingly, for accounting purposes, the merger will be treated as the equivalent of St. Bernard issuing stock for the net monetary assets of Sand Hill, accompanied by a recapitalization. The net monetary assets of Sand Hill will be stated at their fair value, essentially equivalent to historical costs, with no goodwill or other intangible assets recorded. The accumulated deficit of St. Bernard will be carried forward after the merger. Operations prior to the merger will be those of St. Bernard and subsequent to the merger will be those of the combined company.

### **Regulatory Matters**

The merger and the transactions contemplated by the merger agreement are not subject to any federal or state regulatory requirement or approval, including the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or HSR Act, except for filings necessary to effectuate the transactions contemplated by the merger proposal with the Secretary of State of the State of Delaware.

**SELECTED HISTORICAL AND PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

We are providing the following financial information to assist you in your analysis of the financial aspects of the merger. We derived the St. Bernard historical information from the audited consolidated financial statements of St. Bernard as of and for each of the years ended December 31, 2004 and 2003 and from the unaudited consolidated financial statements as of and for the nine months ended September 30, 2005 and 2004. We derived the Sand Hill historical information from the audited financial statements of Sand Hill for the period from April 15, 2004 (inception) to December 31, 2004, and from the unaudited financial statements as of and for the nine months ended September 30, 2005 and 2004 (from inception). The information is only a summary and should be read in conjunction with each company's historical consolidated financial statements and related notes contained elsewhere herein. St. Bernard's results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the entire year or for any future periods. The historical results included below and elsewhere in this document are not indicative of the future performance of St. Bernard, Sand Hill or the combined company.

**Sand Hill Selected Historical Financial Data**

The following table sets forth selected historical financial data of Sand Hill. The information presented below was derived from Sand Hill's audited consolidated financial statements as of December 31, 2004 and for the period from April 15, 2004 (inception) to December 31, 2004 and Sand Hill's unaudited consolidated financial statements as of and for the nine months ended September 30, 2005 and for the period from April 15, 2004 (inception) to September 30, 2004. This information is only a summary. You should read it together with Sand Hill's historical consolidated financial statements and accompanying notes incorporated by reference into this proxy statement/prospectus.

(Dollars in thousands except share information)

	Unaudited Nine Months Ended September 30,	Unaudited Period from April 15, 2004 (inception) to September 30,	Period from April 15, 2004 (inception) to December 31,
<b>Consolidated Statement of Operations Data:</b>	<b>2005</b>	<b>2004</b>	<b>2004</b>
Net revenue	\$ 0	\$ 0	\$ 0
Operating loss	\$ (701)	\$ (63)	\$ (192)
Interest income	\$ 438	\$ 48	\$ 142
Net loss	\$ (263)	\$ (16)	\$ (50)
Net loss per share - basic and diluted	\$ (0.05)	\$ (0.01)	\$ (0.01)
Shares used - basic and diluted	5,110,000	2,542,454	3,468,784

	Unaudited September 30, 2005	December 31, 2004
<b>Consolidated Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 21,862	\$ 21,884
Working capital (deficit)	\$ 21,759	\$ 22,000
Total assets	\$ 21,905	\$ 22,016
Common stock subject to possible conversion	\$ 4,304	\$ 4,218
Stockholder equity	\$ 17,455	\$ 17,782

**St. Bernard Selected Historical Financial Data**

The following table sets forth selected historical financial data of St. Bernard. The information presented below was derived from St. Bernard's audited consolidated financial statements as of December 31, 2004 and 2003 and unaudited consolidated financial statements as of and for the nine months ended September 30, 2005 and for 2004 contained elsewhere in this registration statement. The information as of and for the year ended December 31, 2002 was derived from St. Bernard's unaudited consolidated financial statements which are not contained in this registration statement. This information is only a summary. You should read it together with St. Bernard's historical consolidated financial statements and accompanying notes incorporated by reference into this proxy statement/prospectus.

Dollars and shares in thousands

	Nine Months Ended September 30,		Year Ended December 31,		
	2005	2004	2004	2003	2002 (1)
<b>Consolidated Statement of Operations Data:</b>					
Net revenue	\$ 18,138	\$ 15,580	\$ 21,174	\$ 19,970	\$ 14,181
Operating loss	\$ (1,398)	\$ (5,404)	\$ (7,774)	\$ (530)	\$ (1,215)
Interest expense	\$ 201	\$ 160	\$ 240	\$ 285	\$ 301
Net loss	\$ (1,674)	\$ (5,560)	\$ (7,962)	\$ (309)	\$ (1,624)
Net loss per share - basic and diluted	\$ (0.08)	\$ (0.27)	\$ (0.39)	\$ (0.02)	\$ (0.08)
Weighted Average Shares Outstanding	21,760	20,390	20,503	19,434	19,431

	As of September 30,		As of December 31,		
	2005	2004	2003	2002	
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 29	\$ 557	\$ 1,111	\$ 5	
Working capital (deficit)	\$ (8,931)	\$ (9,420)	\$ (2,556)	\$ (1,325)	
Total assets	\$ 10,847	\$ 11,454	\$ 11,481	\$ 8,015	
Deferred revenue	\$ 15,156	\$ 13,200	\$ 8,479	\$ 4,370	
Long term obligations less current portion	\$ 16	\$ 40	\$ 33	\$ 0	
Stockholder equity (deficit)	\$ (7,292)	\$ (6,812)	\$ 650	\$ 960	

(1) Effective January 1, 2002, St. Bernard adopted the provisions of SFAS No. 142.

**SELECTED UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION**

The merger will be accounted for as a reverse acquisition application of the equity recapitalization method of accounting. Accordingly, although the merger is structured such that St. Bernard will become a wholly-owned subsidiary of Sand Hill at closing, St. Bernard will be treated as the acquirer for accounting and financial reporting purposes. The assets and liabilities of Sand Hill will be recorded, as of completion of the merger, at their respective historical cost, which is considered to be the equivalent of fair value and added to those of St. Bernard. For a more detailed description of purchase accounting, see *"The Merger Proposal—Anticipated Accounting Treatment"* on page \_\_\_\_.

We have presented below selected unaudited pro forma combined financial information that reflects the equity recapitalization method of accounting and is intended to provide you with a better picture of what our business might have looked like had St. Bernard and Sand Hill actually combined. The combined financial information may have been different had the companies actually been combined. The selected unaudited pro forma combined financial information does not reflect the effect of asset dispositions, if any, or cost savings that may result from the merger. You should not rely on the selected unaudited pro forma combined financial information as being indicative of the historical results that would have occurred had the companies been combined or the future results that may be achieved after the merger. The following selected unaudited pro forma combined financial information has been derived from, and should be read in conjunction with, the unaudited pro forma condensed combined financial statements and related notes thereto included elsewhere in this document.

The selected unaudited pro forma combined financial data is based on estimates and assumptions that are preliminary. The data is presented for informational purposes only and is not intended to represent or be indicative of the consolidated results of operations or financial condition of St. Bernard Software that would have been reported had the proposed merger been completed as of the date presented, and should not be taken as representative of future consolidated results of operations or financial condition of St. Bernard Software.

**Pro Forma Condensed****Consolidated Statement of Operations Data:**

Dollars and shares in thousands

Nine Months Ended September 30, 2005

Assumes 100% conversion

Net revenue	\$	18,138
Operating loss	\$	(2,099)
Interest expense	\$	201
Net loss	\$	(1,938)
Net loss per share - basic	\$	(0.14)
Shares used - basic and diluted		14,289

**Pro Forma Condensed****Consolidated Balance Sheet Data:**

Dollars in thousands

September 30, 2005

Cash and cash equivalents	\$	20,791
Working capital	\$	11,727
Total assets	\$	31,651
Deferred Revenue	\$	15,158
Long-term obligations less current portion	\$	16
Stockholder equity	\$	13,365





	Nine months ended September 30, 2005		Year ended December 31, 2004	
	Assuming No Conversions (1)	Assuming Maximum Conversions (2)	Assuming No Conversions (1)	Assuming Maximum Conversions (2)
	(In thousands, except per share data)			
Revenues	\$ 18,138	\$ 18,138	\$ 21,174	\$ 21,174
Net loss	(1,938)	(2,025)	(8,012)	(8,040)
Net loss per share	(0.14)	(0.15)	(0.66)	(0.69)
Shares used basic and diluted	14,289	13,471	12,108	11,617

	September 30, 2005	
	Assuming No Conversions (1)	Assuming Maximum Conversions (2)
	(in thousands)	
Total assets	\$ 31,651	\$ 27,347
Total liabilities	18,286	18,286
Stockholders' equity	13,365	9,061

**Notes:**

- (1) Assumes that no Sand Hill stockholders seek conversion of their Sand Hill stock into their pro rata share of the trust fund.
- (2) Assumes that 19.9% shares of Sand Hill common stock were redeemed into their pro rata share of the trust fund.

**COMPARATIVE PER SHARE INFORMATION**

The following table sets forth selected historical per share information of St. Bernard and Sand Hill and unaudited pro forma combined per share information after giving effect to the merger between St. Bernard and Sand Hill, under the reverse acquisition application of the equity recapitalization method of accounting, assuming a maximum level and a minimum level of approval of the merger by Sand Hill stockholders. You should read this information in conjunction with the selected historical financial information, included elsewhere in this document, and the historical financial statements of St. Bernard and Sand Hill and related notes that are included elsewhere in this document. The unaudited St. Bernard pro forma combined per share information is derived from, and should be read in conjunction with, the Unaudited Pro Forma Condensed Combined Financial Statements and related notes included elsewhere in this proxy statement. The historical per share information is derived from financial statements as of and for the nine months ended September 30, 2005, and for the year ended December 31, 2004 with respect to St. Bernard and for the nine months ended September 30, 2004 and the period from April 15, 2004 (inception) to December 31, 2004 with respect to Sand Hill.

The unaudited pro forma combined per share information does not purport to represent what the actual results of operations of St. Bernard and Sand Hill would have been had the companies been combined or to project St. Bernard and Sand Hill's results of operations that may be achieved after the merger.

**Number of shares of common stock  
outstanding upon consummation of  
the merger:**

	<b>St. Bernard</b>	<b>Sand Hill(1)</b>	<b>Combined Company</b>
Assuming no conversions	9,756,839	5,110,000	14,866,839
	65.6%	34.4%	100%
Assuming maximum conversions	9,756,839	4,292,110	14,048,949
	69.4%	30.6%	100%
Net loss per share—historical:			
Year ended December 31, 2004:	(\$0.39)	(\$0.01)(2)	
Book value per share— Historical			
December 31, 2004	(\$0.33)	\$4.31(4)	
Net loss per share—pro forma: (2)			
Year ended December 31, 2004:			
No conversions	(\$0.34)	(\$0.03)	(\$0.54)
Maximum conversions (3)	(\$0.34)	(\$0.03)	(\$0.57)
Nine months ended September 30, 2005:			
No conversions	(\$0.07)	(\$0.05)	(\$0.13)
Maximum conversions (3)	(\$0.07)	(\$0.08)	(\$0.19)
Book value per share—pro forma			
September 30, 2005			
No conversions	(\$0.31)	\$4.26	\$0.89
Maximum conversions (3)	(\$0.31)	\$4.07	\$0.64

**Notes:**

(1) Operations of Sand Hill for 2004 are for the period from April 15, 2004 (inception) to December 31, 2004.

(2) Consolidated pro forma per share amounts for Sand Hill and St. Bernard were determined based upon the assumed number of shares to be outstanding under the two different levels of conversion rights.

(3) This calculation includes shares of common stock subject to conversion only in the event that minimum approval of the merger is obtained.

- (4) Historical book value per share for Sand Hill was computed based on the book value of Sand Hill at December 31, 2004 \$17,782,010 plus common stock, subject to possible conversion \$4,217,992 divided by the 5,110,000 issued and outstanding shares of Sand Hill common stock at December 31, 2004.

**PER SHARE MARKET PRICE INFORMATION**

The closing price for the common stock, warrants and units of Sand Hill on Wednesday, October 26, 2005, the last trading day before announcement of the execution of the merger agreement was \$5.27, \$1.51 and \$8.35, respectively. Sand Hill's common stock, warrants and units are each quoted on the Over-the-Counter Bulletin Board under the symbols SHQC, SHQCW and SHQCU, respectively. Sand Hill's units commenced public trading on July 27, 2004 and its common stock and warrants commenced public trading on August 24, 2004.

There is no established public trading market for the common stock of St. Bernard.

In connection with the merger, application will be made for the quotation of the combined company's common stock and warrants on the Nasdaq Stock Market.

As of \_\_\_\_\_, 200\_, there were \_\_\_\_ holders of record of the units, \_\_\_\_\_ holders of record of the common stock and \_\_\_\_ holders of record of the warrants. Sand Hill believes the beneficial holders of the units, common stock and warrants to be in excess of \_\_\_\_\_ persons each.

Sand Hill has not paid any cash dividends on its common stock to date and does not intend to pay dividends prior to the completion of the merger. The payment of dividends in the future will be contingent upon revenues and earnings, if any, capital requirements and general financial condition subsequent to completion of a business combination. The payment of any dividends subsequent to the merger will be within the discretion of the then board of directors. It is the present intention of the board of directors to retain all earnings, if any, for use in the business operations and, accordingly, the board does not anticipate declaring any dividends in the foreseeable future.

The table below sets forth, for the calendar quarters indicated, the high and low bid prices of the Sand Hill common stock, warrants and units as reported on the Over-the-Counter Bulletin Board. The over-the-counter market quotations reported below reflect inter-dealer prices, without markup, markdown or commissions and may not represent actual transactions.

<b>Quarter Ended</b>	<b>Common Stock</b>		<b>Warrants</b>		<b>Units</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
December 31, 2004	\$ 4.95	\$ 4.55	\$ 0.70	\$ 0.43	\$ 6.20	\$ 5.42
March 31, 2005	\$ 5.25	\$ 4.80	\$ 0.95	\$ 0.55	\$ 7.25	\$ 6.00
June 30, 2005	\$ 5.47	\$ 4.91	\$ 0.96	\$ 0.56	\$ 7.25	\$ 6.00
September 30, 2005	\$ 5.57	\$ 5.08	\$ 1.70	\$ 0.74	\$ 8.51	\$ 6.45

## RISK FACTORS

*You should carefully consider the following risk factors, together with all of the other information included in this proxy statement/prospectus, before you decide whether to vote or instruct your vote to be cast to adopt the merger proposal, the stock option plans proposal and the adjournment proposal.*

### ***Risks Related to St. Bernard's Business***

***Because St. Bernard derives a majority of its license revenue from sales of a few product lines, any decline in demand for these products could severely harm its ability to generate revenue.***

St. Bernard derives a majority of its revenue from a small number of software products, including its iPrism, ePrism, Update Expert and Open File Manager and related subscription and maintenance services. In particular, St. Bernard's future success depends in part on achieving substantial revenue from customer renewals for subscriptions. Subscriptions typically have durations of 12, 24 or 36 months. St. Bernard's customers have no obligation to renew their subscriptions upon expiration. In addition, its products are concentrated on the small and medium enterprise, or SME, environment. St. Bernard is particularly vulnerable to fluctuations in demand for these products, whether as a result of competition, product obsolescence, technological change, budget constraints of its potential customers or other factors. If St. Bernard's revenue derived from these software products were to decline significantly, including as a result of customers not renewing subscriptions, its business and operating results would be adversely affected.

St. Bernard has a history of losses and negative cash flow.

St. Bernard has a history of operating losses and negative cash flow and has only recently achieved profitability. As of September 30, 2005, St. Bernard had an accumulated deficit of approximately \$27.7 million. There can be no assurance that St. Bernard will remain profitable and that losses will not occur or that it will not have negative cash flow in the future.

***If St. Bernard fails to manage its distribution channels effectively, or if its partners choose not to market and sell St. Bernard's products to their customers, its sales could decline.***

St. Bernard markets its products and related services both directly to end-users and through a variety of indirect sales channels, which include VARs, distributors, system integrators and OEMs.

*Direct Sales.* A significant portion of St. Bernard's revenue is derived from sales by its direct sales force to end-users. This sales channel involves a number of special risks, including:

- longer sales cycles associated with direct sales efforts;
- difficulty in hiring, training, retaining and motivating a direct sales force; and
- the requirement of a substantial amount of training for sales representatives to become productive, and training that must be updated to cover new and revised products.

*Indirect Sales Channels.* A significant portion of St. Bernard's revenue is also derived from sales through indirect sales channels, including distributors that sell its products to end-users and other VARs. This channel involves a number of special risks, including:

- lack of control over the timing of delivery of products to end-users;

- its VARs and distributors are not subject to minimum sales requirements or any obligation to market St. Bernard's products to their customers;

- its VARs and distributors may terminate their relationships with St. Bernard at any time; and

- its VARs and distributors may market and distribute competing products.



*OEMs.* A portion of St. Bernard's revenue is derived from sales through its OEM partners that incorporate St. Bernard's products into their products. St. Bernard's reliance on this sales channel involves a number of special risks, including:

- its lack of control over the shipping dates or volume of systems shipped;
- its OEM partners are not subject to minimum sales requirements or any obligation to market its products to their customers;
- its OEM partners may terminate or renegotiate their arrangements with St. Bernard and new terms may be less favorable in recognition of its increasingly competitive relationship with certain partners;
- the development work that St. Bernard must generally undertake under its agreements with its OEM partners may require St. Bernard to invest significant resources and incur significant costs with little or no associated revenue;
- the time and expense required for the sales and marketing organizations of its OEM partners to become familiar with its products may make it more difficult to introduce those products to the market;
- St. Bernard's OEM partners may develop, market and distribute their own products and market and distribute products of St. Bernard's competitors, which could reduce its sales; and
- if St. Bernard fails to manage its distribution channels successfully, its distribution channels may conflict with one another or otherwise fail to perform as St. Bernard anticipates, which could reduce its sales and increase its expenses, as well as weaken its competitive position.

***The combined company must develop and expand St. Bernard's indirect sales channels to increase revenue and improve its operating results.***

St. Bernard's indirect sales channels accounted for approximately 30% of its revenue in 2004 and 2003. The combined company intends to continue to rely on St. Bernard's indirect sales channels for a significant portion of its revenue. St. Bernard depends on its indirect sales channels, including value-added resellers, distributors, and providers of managed Internet services, to offer its products to a larger customer base than can be reached through a direct sales effort. The combined company will need to expand St. Bernard's existing relationships and enter into new relationships to increase its current and future market share and revenue. St. Bernard may be unable to maintain and expand its existing relationships or enter into new relationships on commercially reasonable terms or at all. If the combined company is unable to maintain and expand St. Bernard's existing relationships or enter into new relationships, St. Bernard may lose customer introductions and co-marketing benefits and its operating results could suffer.

***St. Bernard's reliance on indirect sales channels and OEMs could result in reduced revenue growth because it has little control over its VARs, distributors and OEMs.***

St. Bernard anticipates that sales from its various indirect sales channels, including value-added resellers, distributors, providers of managed Internet services and others, will continue to account for a significant portion of its total revenue in future periods. None of these parties is obligated to continue selling St. Bernard's products or to make any purchases from St. Bernard. St. Bernard's ability to generate increased revenue depends significantly upon the ability and willingness of its indirect sales channels to market and sell its products to organizations worldwide. If they are unsuccessful in their efforts or are unwilling or unable to market and sell St. Bernard's new product offerings, St. Bernard's operating results will suffer. St. Bernard cannot control the level of effort these parties expend or the extent to which any of them will be successful in marketing and selling its products. Some of St. Bernard's indirect sales channels also market and sell products that compete with its products or may decide to do so in the future. St. Bernard may not be able to prevent these parties from devoting greater resources to support its competitors' products

and/or eliminating their efforts to sell its products.

***Because St. Bernard expects to derive a substantial portion of future revenue from subscription fees for iPrism and ePrism, any failure of these products to satisfy customer demands or to achieve more widespread market acceptance will seriously harm its business.***

A substantial portion of St. Bernard's revenue comes from subscriptions to iPrism and ePrism and St. Bernard expects this trend will continue for the foreseeable future. As a result, if for any reason revenues from iPrism and ePrism decline or do not grow as rapidly as St. Bernard anticipates, its operating results and its business will be significantly impaired. If iPrism and ePrism fail to meet the needs of St. Bernard's existing and target customers, or if they do not compare favorably in price and performance to competing products, St. Bernard's growth will be limited. St. Bernard's future financial performance also will depend, in part, on its ability to diversify offerings by successfully developing, introducing and gaining customer acceptance of new products and enhanced versions of iPrism and ePrism. St. Bernard may not be successful in achieving market acceptance of any new products that it develops or of enhanced versions of iPrism and ePrism. Moreover, increased emphasis on the sale of its add-on products could distract St. Bernard from sales of its core iPrism and ePrism offering, negatively impacting its overall sales. Any failure or delay in diversifying its existing offerings, or diversification to the detriment of its core iPrism and ePrism offering, could harm its business, results of operations and financial condition.

***Because St. Bernard recognizes revenue from subscriptions for its products ratably over the term of the subscription, downturns in sales may not be immediately reflected in its revenue.***

Upon execution of a subscription agreement, St. Bernard invoices its customers for the full term of the subscription agreement. St. Bernard then recognizes revenue from customers monthly over the terms of their subscription agreements, which typically have durations of 12, 24 or 36 months. As a result, a majority of the revenue it reports in each quarter is deferred revenue from subscription agreements entered into and paid for during previous quarters. Because of this financial model, the revenue it reports in any quarter or series of quarters may mask significant downturns in sales and the market acceptance of its products.

***If St. Bernard experiences lower-than-anticipated revenue in any particular quarter, or if St. Bernard announces that it expects lower revenue or earnings than previously forecasted, the market value of the company could decline.***

St. Bernard's revenue is difficult to forecast and is likely to fluctuate from quarter to quarter due to many factors outside of its control. Any significant revenue shortfall or lowered revenue or earnings forecast could cause the market value of the combined company to decline substantially. Factors that could lower St. Bernard's revenue or affect its revenue and earnings forecast include:

- the possibility that its customers may cancel, defer or limit purchases as a result of reduced IT budgets or weak and uncertain economic and industry conditions;
- the possibility that its customers may defer purchases of its products in anticipation of new products or product updates from St. Bernard or its competitors;
- changes in the competitive landscape due to mergers, acquisitions or strategic alliances that could allow its competitors to gain market share;
- the possibility that its strategic partners will introduce, market and sell products that compete with St. Bernard's products;
- the unpredictability of the timing and magnitude of sales through direct sales channels and indirect sales channels, including value-added resellers (VARs), and other distributors, which tend to occur later in a quarter than revenues received through its original equipment manufacturer (OEMs), partners;



- its operational capacity to fulfill software license and appliance product orders often received at the end of a quarter;
- the timing of new product introductions by St. Bernard and the market acceptance of new products, which may be delayed as a result of weak and uncertain economic and industry conditions;
  - the rate of adoption and longer sales cycles for new solutions and introduction of new appliances;
  - changes in St. Bernard's pricing and distribution terms or those of its competitors; and
- the possibility that its business will be adversely affected as a result of the threat of terrorism or military actions taken by the United States or its allies.

You should not rely on the results of prior periods as an indication of St. Bernard's future performance. St. Bernard's operating expense levels are based, in significant part, on its expectations of future revenue. If St. Bernard has a shortfall in revenue or orders in any given quarter, it may not be able to reduce operating expenses quickly in response. Therefore, any significant shortfall in revenue or orders could have an immediate adverse effect on St. Bernard's operating results for that quarter. In addition, if St. Bernard fails to manage its business effectively, it may experience high operating expenses, and operating results may fall below forecasts.

***St. Bernard's international sales and operations involve special risks that could increase its expenses, adversely affect its operating results and require increased time and attention of its management.***

St. Bernard derives approximately 10% of its revenue from customers located outside of the U.S. and has operations outside of the U.S., including sales and customer support. The combined company plans to expand St. Bernard's international operations and St. Bernard's planned growth is contingent upon the successful expansion of its international revenue. St. Bernard's international operations are subject to risks in addition to those faced by its domestic operations, including:

- potential loss of proprietary information due to piracy, misappropriation or laws that may be less protective of St. Bernard's intellectual property rights than those in the U.S.;
  - imposition of foreign laws and other governmental controls, including trade and employment restrictions;
- fluctuations in currency exchange rates and economic instability such as higher interest rates and inflation, which could reduce its customers' ability to obtain financing for software products or which could make its products more expensive in those countries;
- limitations on future growth or inability to maintain current levels of revenue from international sales if the combined company does not invest sufficiently in its international operations;
  - difficulties in hedging foreign currency transaction exposures;
  - longer payment cycles for sales in foreign countries and difficulties in collecting accounts receivable;
- difficulties in staffing, managing and operating international operations, including difficulties related to administering stock plans in some foreign countries;
  - difficulties in coordinating the activities of its geographically dispersed and culturally diverse operations;
- seasonal reductions in business activity in the summer months in Europe and in other periods in other countries;



costs and delays associated with developing software in multiple languages; and

war or terrorism, particularly in areas in which St. Bernard has facilities.

***The market for St. Bernard's products continues to emerge, and if it is not successful in promoting awareness of the need for its products and of the St. Bernard brand, its growth may be limited.***

Based on St. Bernard's experience with potential customers, St. Bernard believes that many corporations do not recognize or acknowledge the existence or scope of problems caused by misuse or abuse of the Internet or of network computers, creating significant barriers to sales. In addition, there may be a time-limited opportunity to achieve and maintain a significant share of the market for web filtering and email filtering and St. Bernard's other products due in part to the emerging nature of these markets and the substantial resources available to its existing and potential competitors. If companies do not recognize or acknowledge these problems, then the market for St. Bernard's products may develop more slowly than it expects, which could adversely affect its operating results. Developing and maintaining awareness of the St. Bernard brand is critical to achieving widespread acceptance of St. Bernard's existing and future products. Furthermore, St. Bernard believes that the importance of brand recognition will increase as competition in its market develops. Successful promotion of the St. Bernard brand will depend largely on the effectiveness of the combined company's marketing efforts and on its ability to develop reliable and useful products at competitive prices. If the combined company fails to successfully promote the St. Bernard brand, or if its expenses to promote and maintain the St. Bernard brand are greater than anticipated, its results of operations and financial condition could suffer.

***If the combined company is not able to develop new and enhanced products that achieve widespread market acceptance, it may be unable to recover product development costs, and its earnings and revenue may decline.***

St. Bernard's future success depends on its ability to address the rapidly changing needs of its customers by developing, acquiring and introducing new products, product updates and services on a timely basis. St. Bernard must also extend the operation of its products to new platforms and keep pace with technological developments and emerging industry standards. The combined company intends to commit substantial resources to developing new software products and services, including software products and services for the secure content management small and medium enterprise market. Products being developed are new and unproven, and industry standards for these markets are evolving and changing. They also may require development of new sales channels. If these markets do not develop as anticipated, or if demand for its products and services in these markets does not materialize or occurs more slowly than St. Bernard expects, the combined company will have expended substantial resources and capital without realizing sufficient revenue, and its business and operating results could be adversely affected.

***St. Bernard incurs considerable expenses to develop products for operating systems that are either owned by others or that are part of the Open Source Community. If it does not receive cooperation in its development efforts from others and access to operating system technologies, St. Bernard may face higher expenses or fail to expand its product lines and revenues.***

Many of St. Bernard's products operate primarily on the Linux, UNIX and Windows computer operating systems. As part of St. Bernard's efforts to develop products for operating systems that are part of the Open Source Community, St. Bernard may have to license portions of its products on a royalty free basis or may have to expose its source code. St. Bernard continues to develop new products for these operating systems. It may not accomplish its development efforts quickly or cost-effectively, and it is not clear what the relative growth rates of these operating systems will be. St. Bernard's development efforts require substantial capital investment, the devotion of substantial employee resources and the cooperation of the owners of the operating systems to or for which the products are being ported or developed. If the market for a particular operating system does not develop as anticipated, or demand for St. Bernard's products and services in such market does not materialize or occurs more slowly than it expects, the combined company may

have expended substantial resources and capital without realizing sufficient revenue, and its business and operating results could be adversely affected.



In addition, for some operating systems, St. Bernard must obtain from the owner of the operating system a source code license to portions of the operating system software to port some of its products to or develop products for the operating system. Operating system owners have no obligation to assist in these porting or development efforts. If they do not grant St. Bernard a license or if they do not renew its license, St. Bernard may not be able to expand its product lines into other areas.

***St. Bernard faces increasing competition, which places pressure on its pricing and which could prevent St. Bernard from increasing revenue or maintaining profitability. In addition, St. Bernard may face competition from better-established companies that have significantly greater resources.***

The market for St. Bernard's products is intensely competitive and is likely to become even more so in the future. St. Bernard's current principal competitors frequently offer their products at a significantly lower price than St. Bernard's products, which has resulted in pricing pressures on sales of St. Bernard's products and potentially could result in the commoditization of web filtering and email filtering products. St. Bernard also faces increasing competition from security solutions providers who may add security modules or features to their product offerings. If St. Bernard is unable to maintain the current pricing on sales of its products or increase its pricing in the future, St. Bernard's profitability could be negatively impacted. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins or the failure of St. Bernard's products to achieve or maintain more widespread market acceptance, any of which could have a material adverse effect on its business, results of operations and financial condition. St. Bernard's current principal competitors include:

- companies offering web filtering products, such as SurfControl plc, Secure Computing, Symantec Corporation, CyberGuard, Websense and Trend Micro;
- companies integrating web filtering into specialized security appliances, such as SonicWALL, 8e6 Technologies, Postini, Tumbleweed, Blue Coat Systems, Watchguard and Internet Security Systems;
- companies offering web security solutions, such as Computer Associates and Symantec Corporation; and
- companies offering desktop security solutions such as Microsoft Corporation, Cisco Systems, Internet Security Systems, and Check Point Software.

St. Bernard also faces current and potential competition from vendors of operating systems and networking hardware, many of which now, or may in the future, develop and/or bundle security, file backup, patch management or other competitive products with their products. St. Bernard competes against, and expects increased competition from, anti-virus software developers, traditional network management software developers and Web management service providers. If security or file backup functions become standard features of internet-related hardware or software, the demand for St. Bernard's products will decrease. Furthermore, even if St. Bernard's products provide greater functionality and are more effective than certain other competitive products, potential customers might accept limited functionality as part of an unbundled solution in lieu of purchasing separate products which require more administration. In addition, St. Bernard's own indirect sales channels may decide to develop or sell competing products instead of its products. Many of St. Bernard's potential competitors have substantial competitive advantages, such as:

- greater name recognition and larger marketing budgets and resources;
- established marketing relationships and access to larger customer bases; and
- substantially greater financial, technical and other resources.

As a result, they may be able to respond more quickly and effectively than St. Bernard can to new or changing opportunities, technologies, standards or customer requirements. For all of the foregoing reasons, the combined company may not be able to compete successfully against St. Bernard's current and future competitors.

St. Bernard's future anticipated growth and success will depend on its ability to continue to develop products more rapidly than and equal to or superior to those of its competitors, educate potential customers as to the benefits of licensing its products rather than purchasing or using competing technologies and develop additional channels to market. St. Bernard's future and existing competitors could introduce products with superior features, scalability and functionality at lower prices than its products, and could also bundle existing or new products with other more established products to compete with its products. St. Bernard's competitors could also gain market share by acquiring or forming strategic alliances with its other competitors. Finally, because new distribution methods offered by the Internet and electronic commerce have removed many of the barriers to entry historically faced by start-up companies in the software industry, St. Bernard may face additional competition from these companies in the future. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could adversely affect St. Bernard's business and operating results.

***St. Bernard's database categories and its process for classifying websites and software applications within those categories are subjective, and it may not be able to categorize websites and software applications in accordance with its customers' expectations.***

St. Bernard may not succeed in accurately categorizing Internet and application content to meet its customers' expectations. St. Bernard relies upon a combination of automated filtering technology and human review to categorize websites and software applications in its proprietary databases. St. Bernard's customers may not agree with its determinations that particular websites and software applications should be included or not included in specific categories of its databases. In addition, it is possible that the filtering processes may place objectionable material in categories that are generally unrestricted by St. Bernard's users' Internet and computer access policies, which could result in employees having access to such material in the workplace. Any miscategorization could result in customer dissatisfaction and harm St. Bernard's reputation. Furthermore, St. Bernard selects its categories based on content it believes employers want to manage. St. Bernard may not now, or in the future, succeed in properly identifying the categories of content that employers want to manage. Any failure to effectively categorize and filter websites and software applications according to its customers' expectations will impair the growth of St. Bernard's business and its efforts to increase brand acceptance.

***St. Bernard's databases may fail to keep pace with the rapid growth and technological change of the Internet.***

The success of St. Bernard's products depends, in part, on the breadth and accuracy of its databases. Although its databases currently catalog more than six million websites, they contain only a portion of such material that exists. In addition, the total number of websites is growing rapidly, and St. Bernard expects this rapid growth rate to continue in the future. St. Bernard's databases and database technologies may not be able to keep pace with the growth in the number of websites and software applications, especially the growing amount of content utilizing foreign languages. Further, the ongoing evolution of the Internet and computing environments will require it to continually improve the functionality, features and reliability of its databases. Because its products primarily can only manage access to websites included in its databases, if St. Bernard's databases do not contain a meaningful portion of relevant content, the effectiveness of iPrism and ePrism will be significantly diminished. Any failure of St. Bernard's databases to keep pace with the rapid growth and technological change of the Internet will impair the market acceptance of its products, which in turn will harm its business, results of operations and financial condition.

***The combined company's business strategy includes possible growth through acquisitions, which involve special risks that could increase the combined company's expenses, and divert the time and attention of management.***

As part of its business strategy, St. Bernard has in the past acquired product, technology and companies and the combined company expects in the future to acquire other businesses, business units and technologies. Acquisitions involve a number of special risks and challenges, including:

- diversion of management's attention from St. Bernard's business;

- integration of acquired business operations and employees into its existing business, including coordination of geographically dispersed operations, which can take longer and be more complex than initially expected;
- incorporation of acquired products and business technologies into existing product lines, including consolidating technology with duplicative functionality or designed on different technological architecture, and the ability to sell the acquired products through existing or acquired sales channels;
- loss or termination of employees, including costs associated with the termination of those employees;
- dilution of then-current stockholders' percentage ownership;
- dilution of earnings if synergies with the acquired businesses are not achieved;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- assumption of liabilities of the acquired businesses, including costly litigation related to alleged liabilities of the acquired businesses;
- presentation of a unified corporate image to customers and employees;
- increased costs and efforts in connection with compliance with Section 404 of the Sarbanes-Oxley Act; and
- risk of impairment charges related to potential write-down of acquired assets in future acquisitions.

Acquisitions of businesses, business units and technologies are inherently risky and create many challenges. The combined company cannot provide any assurance that any future acquisitions will achieve the desired objectives. If the combined company fails to properly evaluate and execute acquisitions or investments, its business and prospectus may be seriously harmed.

***St. Bernard's growth could strain its personnel and infrastructure resources, and if it is unable to implement appropriate controls and procedures to manage its growth, St. Bernard may not be able to successfully implement its business plan.***

St. Bernard continues to experience rapid growth in its operations, which has placed, and will continue to place, a significant strain on its management, administrative, operational and financial infrastructure. St. Bernard's future success will depend in part upon the ability of its senior management to manage growth effectively. This will require the combined company to hire and train additional personnel to manage its expanding operations. In addition, the combined company will be required to continue to improve its operational, financial and management controls and its reporting systems and procedures. If the combined company fails to successfully manage its growth, it will be unable to execute its business plan.

***St. Bernard is dependent on its management team and other key personnel, and the loss of any key employee may prevent St. Bernard from implementing its business plan in a timely manner.***

St. Bernard's success depends largely upon the continued services of its executive officers and other key management and development personnel. St. Bernard is also substantially dependent on the continued service of its existing engineering personnel because of the complexity of its products and technologies. St. Bernard does not have employment agreements with its executive officers, key management or development personnel and, therefore, they could terminate their employment with St. Bernard at any time without penalty, and there is no assurance that St. Bernard will be able to retain them. Key personnel have left the company over the years, and there may be additional

departures of key personnel from time to time. The loss of any key employee, especially CEO John E. Jones, could result in significant disruptions to St. Bernard's operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of company initiatives and the results of its operations. In addition, the integration of replacement personnel could be time consuming, may cause additional disruptions to St. Bernard's operations and may be unsuccessful. St. Bernard does not maintain key person life insurance policies on any of its employees. The loss of one or more of its key employees, especially its CEO, John E. Jones, could seriously harm St. Bernard's business, results of operations and financial condition. In such an event St. Bernard may be unable to recruit personnel to replace these individuals in a timely manner, or at all, on acceptable terms.

***If the combined company is unable to attract and retain qualified employees and manage its employee base effectively, it may be unable to develop new and enhanced products, expand St. Bernard's business or increase its revenue.***

St. Bernard believes that its success depends in part on its ability to hire and retain qualified employees. As the company grows, and its customers' demand for St. Bernard's products and services increase, the combined company will need to hire additional management, technical, sales and other personnel. However, competition for people with the specific skills that St. Bernard requires is significant. If the combined company is unable to hire and retain qualified employees, or conversely, if it fails to manage employee performance or reduce staffing levels when required by market conditions, its business and operating results could be adversely affected.

Historically, St. Bernard has provided stock-based compensation, such as stock option grants as an important incentive for its employees. St. Bernard may be unable to obtain required stockholder approvals of future increases in the number of shares available for issuance under its equity compensation plans and recent changes in accounting rules may require St. Bernard to treat the issuance of employee stock options and other forms of equity compensation as compensation expense beginning in fiscal 2006. As a result, St. Bernard may decide to issue fewer stock options and may be impaired in its efforts to attract and retain necessary personnel. Reductions in St. Bernard's stock-based compensation practices may make it more difficult to attract and retain employees, which may negatively affect St. Bernard's ability to manage and operate its business.

***St. Bernard products may contain significant errors and failures, which may subject it to liability for damages suffered by end-users.***

Software products frequently contain errors or failures, especially when first introduced or when new versions are released. St. Bernard's end-user customers use its products in applications that are critical to their businesses, including for data protection and recovery, and may have a greater sensitivity to defects in St. Bernard's products than to defects in other, less critical software products. If a customer loses critical data as a result of an error in or failure of St. Bernard's software products or as a result of the customer's misuse of St. Bernard's software products, the customer could suffer significant damages and seek to recover those damages from St. Bernard. Although St. Bernard's software licenses generally contain protective provisions limiting its liability, a court could rule that these provisions are unenforceable. If a customer is successful in proving its damages and a court does not enforce St. Bernard's protective provisions, St. Bernard could be liable for the damages suffered by its customers and other related expenses, which could adversely affect its operating results.

Product errors or failures could cause delays in new product releases or product upgrades, or St. Bernard's products might not work in combination with other hardware or software, which could adversely affect market acceptance of St. Bernard's products. If St. Bernard's customers were dissatisfied with product functionality or performance, or if St. Bernard were to experience significant delays in the release of new products or new versions of products, it could lose competitive position and revenue and its business and operating results could be adversely affected.

***Failure to protect its intellectual property rights could impair St. Bernard's ability to protect its proprietary technology and establish the St Bernard brand.***

Intellectual property is critical to St. Bernard's success, and it relies upon trademark, copyright and trade secret laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect its proprietary technology and the St. Bernard brand. Any of its trademarks may be challenged by others or invalidated through administrative process or litigation. St. Bernard currently has only two issued patents in the United States and one corresponding issued patent internationally, and it may be unable to obtain further patent protection in the future. In addition, any issued patents may not provide St. Bernard with any competitive advantages, or may be challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to

St. Bernard in every country in which its products are available. The laws of some foreign countries may not be as protective of intellectual property rights as United States laws, and mechanisms for enforcement of intellectual property rights may be inadequate. As a result St. Bernard's means of protecting its proprietary technology and brands may not be adequate. Furthermore, despite its efforts, St. Bernard may be unable to prevent third parties from infringing upon or misappropriating its intellectual property, including the misappropriation or misuse of the content of its proprietary database of websites. Any such infringement or misappropriation could have a material adverse effect on St. Bernard's business, results of operations and financial condition.



***St. Bernard may be sued by third parties for alleged infringement of their proprietary rights.***

The software and internet industries are characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of patent infringement or other violations of intellectual property rights. As the number of entrants into St. Bernard's market increases, the possibility of an intellectual property claim against it grows. St. Bernard's technologies and products may not be able to withstand any third-party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming and expensive to litigate or settle, and could divert management attention from executing its business plan.

***St. Bernard's systems may be vulnerable to security risks or service disruptions that could harm its business.***

Although it has taken measures to secure its systems against security risks and other causes of disruption of electronic services, St. Bernard's servers are vulnerable to physical or electronic break-ins and service disruptions, which could lead to interruptions, delays, loss of data or the inability to process customer requests. Such events could be very expensive to remedy, could damage St. Bernard's reputation and could discourage existing and potential customers from using its products.

***Evolving regulation of the Internet may affect St. Bernard adversely.***

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. Such regulation is likely in the areas of user privacy, pricing, content and quality of products and services. Taxation of Internet use or other charges imposed by government agencies or by private organizations for accessing the Internet may also be imposed. Laws and regulations applying to the solicitation, collection or processing of personal or consumer information could affect St. Bernard's activities. Furthermore, any regulation imposing fees for Internet use could result in a decline in the use of the Internet and the viability of Internet commerce, which could have a material adverse effect on St. Bernard's business, results of operations and financial condition.

***St. Bernard is subject to changes in financial accounting standards, which may adversely affect its reported financial results or the way it conducts business.***

Accounting policies affecting software revenue recognition have been the subject of frequent interpretations, significantly affecting the way St. Bernard sells its products. Future changes in financial accounting standards, including pronouncements relating to revenue recognition, may have a significant effect on St. Bernard's reported results, including reporting of transactions completed before the effective date of the changes.

***The market price of the combined company's securities is likely to be highly volatile and subject to wide fluctuations.***

The market price of Sand Hill's securities prior to the merger has been and likely will continue to be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond its control, including:

- announcements of technological innovations or new products or services by its competitors;
- demand for its products, including fluctuations in subscription renewals;
- fluctuations in revenue from indirect sales channels;
- changes in the pricing policies of its competitors; and
- changes in government regulations.

In addition, the market price of the combined company's securities could be subject to wide fluctuations in response to a number of factors, including:

- announcements of technological innovations or new products or services by St. Bernard;
- changes in its pricing policies;
- quarterly variations in its revenues and operating expenses; and
- its technological capabilities to accommodate the future growth in its operations or its customers.

Further, the stock market has experienced significant price and volume fluctuations that have particularly affected the market price of the stock of many Internet-related companies, and that often have been unrelated or disproportionate to the operating performance of these companies. A number of publicly traded Internet-related companies have current market prices below their initial public offering prices. Market fluctuations such as these may seriously harm the market price of the combined company's securities. In the past, securities class action suits have been filed following periods of market volatility in the price of a company's securities. If such an action were instituted, the combined company would incur substantial costs and a diversion of management attention and resources, which would seriously harm its business, results of operations and financial condition.

### ***Risks Related to the Merger***

***If 20% or more of the holders of Sand Hill's public securities decide to vote against the proposed acquisition, Sand Hill may be forced to liquidate, stockholders may receive less than \$6.00 per share and the warrants may expire worthless.***

Under the terms of Sand Hill's certificate of incorporation, if 20% or more of the shares issued in Sand Hill's initial public offering decide to vote against the merger and opt to convert their shares to cash, Sand Hill will be unable to complete the merger and may be ultimately forced to liquidate. While Sand Hill will continue to search to acquire an operating company in the IT security industry, if it does not consummate a business combination by January 27, 2006, or, if a letter of intent, agreement in principle or definitive agreement is executed, but not consummated, by January 27, 2006, then by July 27, 2006, it will be forced to liquidate. In any liquidation, the net proceeds of Sand Hill's initial public offering held in the trust account, plus any interest earned thereon, will be distributed pro rata to the holders of Sand Hill's common stock issued in its initial public offering. If Sand Hill is forced to liquidate its assets, the per-share liquidation to such stockholders will be approximately \$5.25, plus interest accrued thereon until the date of any liquidation, as of October 26, 2005. Furthermore, there will be no distribution with respect to Sand Hill's outstanding warrants and, accordingly, the warrants will expire worthless.

*The combined company's working capital could be reduced, and Sand Hill stockholders could own less than 34.4% of the combined company's outstanding common stock, if Sand Hill stockholders exercise their right to convert their shares into cash.*

Pursuant to Sand Hill's certificate of incorporation, holders of shares issued in Sand Hill's initial public offering may vote against the merger and demand that Sand Hill convert their shares into cash. Sand Hill and St. Bernard will not consummate the merger if holders of 20% or more shares of common stock issued in Sand Hill's initial public offering exercise these conversion rights. To the extent the merger is consummated and holders of less than 20% of Sand Hill's common stock issued in its initial public offering have demanded to convert their shares, there will be a corresponding reduction in the amount of funds available to the combined company following the merger and a reduction in the aggregate percentage of the combined company that is owned by Sand Hill's stockholders after the merger. Additionally, if holders demand to convert their shares, there may be a corresponding reduction in the value of each share of common stock held in the combined company. As of October 26, 2005, assuming the merger proposal is adopted, the maximum amount of funds that could be disbursed to Sand Hill's stockholders upon the exercise of the conversion rights is approximately \$4,315,500, or approximately 20% of the funds currently held in trust. If the maximum amount of funds were disbursed, the percentage of the combined company's common stock that would be owned by the Sand Hill stockholders who did not exercise their conversion right would be 30.6%.

***A substantial number of the combined company's shares will become eligible for future resale in the public market after the merger which could result in dilution and an adverse effect on the market price of those shares.***

If the merger is consummated, warrants to purchase 8,220,000 shares of common stock issued in connection with the Sand Hill initial public offering will become exercisable on the date the merger is consummated, as described under "Description of Sand Hill's Securities Following the Merger—Warrants." Moreover, 1,000,000 shares of Sand Hill common stock purchased by stockholders prior to Sand Hill's initial public offering will be held in escrow until July 26, 2007, at which time they will be released from escrow and be eligible for resale in the public market subject to compliance with applicable law. Consequently, at various times after completion of the merger, a substantial number of additional shares of Sand Hill common stock will be eligible for resale in the public market. Sales of substantial numbers of such shares in the public market could adversely affect the market price of such shares and of the warrants.

***If Sand Hill is unable to receive a listing of its securities on a national securities exchange or NASDAQ, then it may be more difficult for its stockholders to sell their securities.***

The listing of the Sand Hill common stock, warrants and units on the Nasdaq Stock Market or on the American Stock Exchange is not a condition to the merger and the possible quotation of Sand Hill's securities on a national securities exchange or NASDAQ is uncertain. If Sand Hill is unable to receive a listing or approval of trading of its securities on a national securities exchange or NASDAQ, then it may be more difficult for its stockholders to sell their securities. Shares of Sand Hill common stock, warrants and units are currently traded in the over-the-counter market and quoted on the Over-the-Counter Bulletin Board. The merger agreement provides that Sand Hill will file an application to list the shares of Sand Hill common stock and warrants outstanding prior to completion of the merger, as well as all the shares of common stock to be issued in the merger, for listing on the Nasdaq Stock Market or on the American Stock Exchange and will use commercially reasonable efforts to cause such listing to be accomplished as soon as practicable after the date of the merger agreement. There is no assurance that this approval will occur on or prior to consummation of the merger or at all.

***Sand Hill directors and executive officers have interests in the merger that are different from yours because if the merger is not approved then the shares held by them may become worthless.***

In considering the recommendation of the board of directors of Sand Hill to vote for the proposal to adopt the merger agreement you should be aware that a number of Sand Hill's executives and members of Sand Hill's board have interests in the merger that are different from, or in addition to, your interests as a stockholder. These interests include, among other things:

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if the merger is not approved and Sand Hill fails to consummate an alternative transaction within the time allotted pursuant to its certificate of incorporation and Sand Hill is therefore required to liquidate, the shares of common stock purchased prior to its initial public offering and held by Sand Hill's executives and directors may be worthless because Sand Hill's executives and directors are not entitled to receive any of the net proceeds of Sand Hill's initial public offering that may be distributed upon liquidation of Sand Hill with respect to these shares. In addition, the warrants held by such persons will expire without value in the event of a liquidation;

After the completion of the merger, Humphrey P. Polanen will remain as the chairman of the board of directors of the combined company and Scott Broomfield will remain as a director of the combined company; and

If Sand Hill liquidates prior to the consummation of a business combination, Humphrey P. Polanen, chairman of the board and chief executive officer, will be personally liable to pay debts and obligations, if any, to vendors and other entities that are owed money by Sand Hill for services rendered or products sold to Sand Hill in excess of the net proceeds of Sand Hill's initial public offering not held in the trust account.

***Voting control by executive officers, directors and other affiliates of the combined company may limit your ability to influence the outcome of director elections and other matters requiring stockholder approval.***

Upon consummation of the merger, executive officers, directors and affiliates of the combined company will own a significant portion of the combined company's voting stock. These stockholders can control substantially all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions. This concentration of ownership could have the effect of delaying or preventing a change in our control or discouraging a potential acquiror from attempting to obtain control of us, which in turn could have a material adverse effect on the market price of the common stock or prevent our stockholders from realizing a premium over the market price for their shares of common stock.

***The lack of diversification in the business of the combined company affects Sand Hill's ability to mitigate the risks that it may face or to offset possible losses that it may incur as a result of competing in the IT security industry.***

The prospects for Sand Hill's success will be entirely dependent upon the future performance of a single business. Sand Hill will not have the resources to diversify its operations or benefit from the possible spreading of risks or offsetting of losses. By consummating a business combination with only a single entity, Sand Hill's lack of diversification may subject Sand Hill to numerous economic, competitive and regulatory developments, any or all of which may have a substantial adverse impact upon the particular industry in which Sand Hill operates subsequent to the business combination, and result in Sand Hill's dependency upon the development or market acceptance of a single or limited number of products, processes or services.

## FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus contains statements referring to Sand Hill or St. Bernard that are not historical facts and are considered “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may be made directly in this proxy statement/prospectus, including the Annexes attached to this proxy statement/prospectus and made part of this proxy statement/prospectus, and may include statements regarding the period following completion of the merger. These statements are intended to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

These forward-looking statements are based on current projections about operations, industry conditions, financial condition, and liquidity. Words such as “may,” “will,” “should,” “plan,” “predict,” “potential,” “anticipate,” “estimate,” “project,” “intend,” “believe,” “may impact,” “on track,” and words and terms of similar substance used in connection with any discussion of future operating or financial performance, the merger, or our businesses, identify forward-looking statements. You should note that the discussion of Sand Hill’s reasons for the merger, as well as other portions of this proxy statement/prospectus, contain many forward-looking statements that describe beliefs, assumptions, and estimates as of the indicated dates and those forward-looking expectations may have changed as of the date of this proxy statement/prospectus. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Those statements are not guarantees and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results could differ materially and adversely from these forward-looking statements. These risks and uncertainties include, but are not limited to, the following:

- § difficulties encountered in integrating merged businesses;
- § uncertainties as to the timing of the merger;
- § approval of the transactions by the stockholders of the companies;
- § the number and percentage of Sand Hill stockholders voting against the merger;
- § the satisfaction of closing conditions to the transaction, including the receipt of regulatory approvals, if any;
- § whether certain market segments grow as anticipated; and
- § the competitive environment in the software industry and competitive responses to the proposed merger.

The above list is not intended to be exhaustive and there may be other factors that would preclude Sand Hill and St. Bernard from realizing the predictions made in the forward-looking statements. St. Bernard operates in a continually changing business environment and new factors emerge from time to time. Sand Hill and St. Bernard cannot predict such factors or assess the impact, if any, of such factors on their respective financial positions or results of operations. Accordingly, Sand Hill stockholders are cautioned not to place undue reliance on such statements, which speak only as of the date of this proxy statement/prospectus.

**ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS CONCERNING THE MERGER OR OTHER MATTERS ADDRESSED IN THIS PROXY STATEMENT/PROSPECTUS AND ATTRIBUTABLE TO SAND HILL, ST. BERNARD, OR ANY PERSON ACTING ON THEIR BEHALF ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS CONTAINED OR REFERRED TO IN THIS SECTION. EXCEPT TO THE EXTENT REQUIRED BY APPLICABLE LAW OR REGULATION, NEITHER SAND HILL NOR ST. BERNARD UNDERTAKES ANY OBLIGATION TO RELEASE PUBLICLY ANY REVISIONS OR UPDATES TO SUCH FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE OF THIS PROXY STATEMENT/PROSPECTUS OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS.**



## THE SAND HILL SPECIAL MEETING

### Sand Hill Special Meeting

We are furnishing this document to you as part of the solicitation of proxies by the Sand Hill board of directors for use at the special meeting in connection with the proposed merger. This document provides you with the information you need to know to be able to vote or instruct your vote to be cast at the special meeting.

### Date, Time and Place

We will hold the special meeting at \_\_\_\_\_, on \_\_\_\_\_, 200\_\_, at \_\_\_\_\_, Suite \_\_\_\_\_, \_\_\_\_\_, California \_\_\_\_\_, to vote on the merger proposal, the stock option plans proposal and the adjournment proposal.

### Purpose of the Special Meeting

At the special meeting, we are asking holders of Sand Hill common stock to:

- adopt the merger agreement and the transactions contemplated by the merger agreement;
- adopt the amendment and restatement of Sand Hill's certificate of incorporation;
- adopt the stock option plans proposal; and
- adopt the adjournment proposal.

### Recommendation of the Sand Hill Board of Directors

The Sand Hill board of directors:

has unanimously determined that the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal are fair to and in the best interests of Sand Hill and its stockholders;

has unanimously approved and declared advisable the merger agreement and the transactions contemplated by the merger agreement, the amendment proposal, the stock option plans proposal and the adjournment proposal;

unanimously recommends that Sand Hill common stockholders vote **"FOR"** the proposal to adopt the merger agreement and the transactions contemplated by the merger agreement;

unanimously recommends that Sand Hill common stockholders vot **"FOR"** the proposal to adopt the amendment and restatement of the Sand Hill certificate of incorporation;

unanimously recommends that Sand Hill common stockholders vote **"FOR"** the proposal to adopt the stock option plans; and

- unanimously recommends that Sand Hill common stockholders vote **"FOR"** the adjournment proposal.

### Record Date; Who is Entitled to Vote

The record date for the special meeting is \_\_\_\_\_, 200\_\_. Record holders of Sand Hill common stock at the close of business on the record date are entitled to vote or have their votes cast at the special meeting. On the record date, there were 5,110,000 outstanding shares of Sand Hill common stock, which includes \_\_\_\_\_ shares of common stock as part of units that were issued in our initial public offering.

Each share of Sand Hill common stock is entitled to one vote per share at the special meeting.

Pursuant to letter agreements with Sand Hill, any shares of Sand Hill common stock held by stockholders who purchased their shares of common stock prior to the initial public offering will be voted on the merger proposal in the same manner as how the majority of the shares of common stock held by all other Sand Hill stockholders are voted on the merger proposal. The holders of such common stock are free to vote their shares acquired in our initial public offering or afterwards as they see fit and are free to vote all of their common stock, however obtained, on the other proposals as they see fit.

Sand Hill's issued and outstanding warrants do not have voting rights and record holders of Sand Hill warrants will not be entitled to vote at the special meeting.

### **Quorum**

The presence, in person or by proxy, of a majority of all the outstanding shares of Sand Hill common stock constitutes a quorum at the special meeting.

### **Voting Your Shares**

Each share of Sand Hill common stock that you own in your name entitles you to one vote. Your proxy card shows the number of shares of Sand Hill common stock that you own.

There are three ways to vote your shares of Sand Hill common stock at the special meeting:

*You can vote by signing and returning the enclosed proxy card.* If you vote by proxy card, your "proxy," whose name is listed on the proxy card, will vote your shares as you instruct on the proxy card. If you sign and return the proxy card but do not give instructions on how to vote your shares, your shares will be voted as recommended by the Sand Hill board **"FOR"** the adoption of the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal.

*You can vote by telephone or on the Internet* by following the telephone or Internet voting instructions that are included with your proxy card. If you vote by telephone or by the Internet, you should not return the proxy card. The deadline for voting by telephone or electronically is 11:59 p.m., Eastern Standard Time, on \_\_\_\_\_.

*You can attend the special meeting and vote in person.* We will give you a ballot when you arrive. However, if your shares are held in the name of your broker, bank or another nominee, you must get a proxy from the broker, bank or other nominee. That is the only way we can be sure that the broker, bank or nominee has not already voted your shares.

**IF YOU DO NOT VOTE YOUR SHARES OF SAND HILL COMMON STOCK IN ANY OF THE WAYS DESCRIBED ABOVE, IT WILL HAVE THE SAME EFFECT AS A VOTE AGAINST THE ADOPTION OF THE MERGER PROPOSAL, BUT WILL NOT HAVE THE EFFECT OF A DEMAND OF CONVERSION OF YOUR SHARES INTO CASH.**

### **Who Can Answer Your Questions About Voting Your Shares**

If you have any questions about how to vote or direct a vote in respect of your Sand Hill common stock, you may call Humphrey P. Polanen, Sand Hill's chairman and chief executive officer, at (650) 926-7022.

### **No Additional Matters May Be Presented at the Special Meeting**

The special meeting has been called only to consider the adoption of the merger proposal, the stock option plans proposal and the adjournment proposal. Under Sand Hill's bylaws, other than procedural matters incident to the conduct of the meeting, no other matters may be considered at the special meeting if they are not included in the notice of the meeting.

## **Revoking Your Proxy**

If you give a proxy, you may revoke it at any time before it is exercised by doing any one of the following:

- You may send another proxy card with a later date;
- You may notify Humphrey P. Polanen, Sand Hill's chairman and chief executive officer, in writing before the special meeting that you have revoked your proxy; or
- You may attend the special meeting, revoke your proxy, and vote in person.

## **Vote Required**

The adoption of the merger agreement and the transactions contemplated by the merger agreement will require the affirmative vote of the majority of the outstanding shares of Sand Hill common stock on the record date.

The adoption of the amendment and restatement of Sand Hill's certificate of incorporation will require the affirmative vote of the majority of the outstanding shares of Sand Hill common stock on the record date.

The adoption of the stock option plans proposal will require the affirmative vote of a majority of the shares of Sand Hill common stock present in person or represented by proxy at the special meeting.

The adoption of the adjournment proposal will require the affirmative vote of a majority of the shares of Sand Hill common stock present in person or represented by proxy at the special meeting.

## **Abstentions and Broker Non-Votes**

If your broker holds your shares in its name and you do not give the broker voting instructions, under the rules of the NASD, your broker may not vote your shares on the proposals to adopt the merger agreement and the amendment and restatement of the Sand Hill certificate of incorporation. If you do not give your broker voting instructions and the broker does not vote your shares, this is referred to as a "broker non-vote." Abstentions and broker non-votes have the same effect as a vote "against" the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal.

## **Conversion Rights**

Any stockholder of Sand Hill holding shares of common stock issued in Sand Hill's initial public offering who votes against the merger proposal may, at the same time, demand that Sand Hill convert their shares into a pro rata portion of the trust account holding a substantial portion of the net proceeds of Sand Hill's initial public offering. If so demanded, Sand Hill will convert these shares into a pro rata portion of the funds held in a trust account, which consist of \$21,025,000 of the net proceeds from the initial public offering deposited into the trust account plus interest earned thereon, if the merger is consummated. If the holders of 20%, or 822,000, or more of the shares of common stock issued in Sand Hill's initial public offering vote against the merger and demand conversion of their shares into a pro rata portion of the trust account, Sand Hill will not be able to consummate the merger. If you exercise your conversion rights, then you will be exchanging your shares of Sand Hill common stock for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if you continue to hold these shares through the effective time of the merger and then tender your stock certificate to the combined company. The closing price of Sand Hill's common stock on October 26, 2005 was \$5.27 and the amount of cash held in the trust account on that date was approximately \$21,565,509.96. If a Sand Hill stockholder would have elected to exercise their conversion rights on such date, then they would have been entitled to receive approximately \$5.25 per share, or \$0.75

less than the per-unit offering price of \$6.00 for which the Sand Hill stockholder purchased units of the initial public offering. Prior to exercising conversion rights, Sand Hill stockholders should verify the market price of Sand Hill's common stock as they may receive higher proceeds from the sale of their common stock in the public market than from exercising their conversion rights if the market price per share is higher than the conversion price.

### **Solicitation Costs**

Sand Hill is soliciting proxies on behalf of the Sand Hill board of directors. This solicitation is being made by mail but also may be made by telephone or in person. Sand Hill and its respective directors, officers and employees may also solicit proxies in person, by telephone or by other electronic means. These persons will not be paid for doing this. Sand Hill has not hired a firm to assist in the proxy solicitation process but may do so if it deems this assistance necessary. Sand Hill will pay all fees and expenses related to the retention of any proxy solicitation firm.

Sand Hill will ask banks, brokers and other institutions, nominees and fiduciaries to forward its proxy materials to their principals and to obtain their authority to execute proxies and voting instructions. Sand Hill will reimburse them for their reasonable expenses.

### **Stock Ownership**

At the close of business on the record date, Humphrey P. Polanen, Sand Hill Security, LLC, an affiliate of the officers and directors of Sand Hill, Keith Walz, Scott Broomfield, Cary Grossman, Daniel Johnson and Alberto Micalizzi beneficially owned and were entitled to vote approximately 1,000,000 shares of Sand Hill common stock, or approximately 19.6% of the then outstanding shares of Sand Hill common stock, which includes all of the shares held by the directors and executive officers of Sand Hill and their affiliates. These shares have a market value of \$5,270,000 based on Sand Hill's common stock price of \$5.27 per share as of October 26, 2005. Those persons, who were stockholders of Sand Hill prior to its initial public offering of securities, have agreed pursuant to letter agreements with Sand Hill to vote their shares of Sand Hill common stock purchased prior to the initial public offering in the same manner as how a majority of the shares of common stock held by all other Sand Hill stockholders are voted on the merger proposal. They are entitled to vote the shares acquired by them in or subsequent to the initial public offering as they see fit and have indicated that they will vote the shares acquired by them in or subsequent to the initial public offering, representing approximately \_\_\_\_% of the outstanding common stock, in favor of the merger proposal. Mr. Polanen is currently chairman of the board of directors and chief executive officer of Sand Hill. Messrs. Broomfield and Walz are directors and executive officers of Sand Hill and Messrs. Grossman, Johnson and Micalizzi are directors of Sand Hill. In addition, Sand Hill Security, LLC is an affiliate of the directors and officers of Sand Hill and Mr. Polanen is its sole manager. Based solely upon information contained in public filings, as of December 12, 2005, the following stockholders beneficially owned greater than five percent of Sand Hill's issued and outstanding common stock:

- Humphrey P. Polanen and his affiliates beneficially owned 559,441 shares of Sand Hill common stock, representing approximately 10.9% of the Sand Hill common stock outstanding on the record date;
- Sapling, LLC beneficially owned 400,000 shares of Sand Hill common stock, representing approximately 7.8% of the Sand Hill common stock outstanding on the record date; and
- Amaranth, LLC beneficially owned 299,098 shares of Sand Hill common stock, representing approximately 5.8% of the shares of Sand Hill common stock outstanding on the record date.

## THE MERGER PROPOSAL

The discussion in this document of the merger and the principal terms of the merger agreement, as amended, by and among Sand Hill, Sand Hill Merger Corp., a wholly-owned subsidiary of Sand Hill, and St. Bernard is subject to, and is qualified in its entirety by reference to, the merger agreement. A copy of the merger agreement, as amended, is attached as Annex A to this proxy statement/prospectus and is incorporated herein by reference. We urge you to read this agreement in its entirety.

### General Description of the Merger

Pursuant to the merger agreement, Sand Hill Merger Corp. will merge with and into St. Bernard, with St. Bernard surviving as a wholly-owned subsidiary of Sand Hill, and the separate corporate existence of Sand Hill Merger Corp. shall cease. We refer to St. Bernard and Sand Hill, after giving effect to completion of the merger, as the combined company. It is expected that holders of St. Bernard common stock will hold approximately 65.6% of the outstanding shares of Sand Hill common stock immediately following the closing of the merger, based on the number of shares of Sand Hill and St. Bernard common stock outstanding as of October 26, 2005. Under the merger agreement, holders of St. Bernard common stock, options and warrants are entitled to receive their pro rata portion of 10,880,000 shares of Sand Hill common stock, replacement options or replacement warrants to be issued in the merger. No additional consideration will be issued by Sand Hill in the merger. This results in an exchange ratio of 0.421419 shares of Sand Hill common stock or replacement options or warrants for each share of St. Bernard common stock or options or warrants to purchase St. Bernard common stock outstanding. Based upon the number of shares of St. Bernard common stock outstanding and the number of shares issuable for St. Bernard common stock pursuant to outstanding options and warrants as of October 26, 2005, Sand Hill will issue approximately 9,759,600 shares of common stock at the close of the merger and holders of options and warrants to purchase shares of the common stock of St. Bernard will receive, in exchange for those options and warrants, options and warrants to purchase approximately 1,120,400 shares of Sand Hill common stock. To the extent that outstanding St. Bernard options or warrants are exercised prior to the closing of the merger, the number of shares of Sand Hill common stock that would be issued at the closing of the merger would increase and the number of the shares of Sand Hill common stock that would be subject to replacement options or warrants to be issued at the closing of the merger would decrease by a like amount. In no event will Sand Hill issue shares of common stock or replacement options or warrants for an aggregate amount in excess of 10,880,000 shares, other than with respect to purchase price adjustments, which are not expected to be material. For a complete description of the post-closing fully diluted capitalization of Sand Hill please see “*Beneficial Ownership of Securities*” on page \_\_\_\_.

### Background of the Merger

The terms of the merger agreement are the result of arm’s-length negotiations between representatives of Sand Hill and St. Bernard.

Sand Hill was formed on April 15, 2004 to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business in a specified industry. Sand Hill completed an initial public offering on July 30, 2004, in which it raised net proceeds of approximately \$22,022,462. Approximately \$20,961,000 of these net proceeds were placed in a trust account and, in accordance with Sand Hill’s certificate of incorporation, will be released either upon the consummation of a business combination or upon the liquidation of Sand Hill. Sand Hill must liquidate within sixty days of January 27, 2006 unless it has consummated a business combination, or if a letter of intent, agreement in principle or a definitive agreement to complete a business combination was executed but not consummated prior to January 27, 2006, then it is not required to liquidate until within sixty days of June 27, 2006 if a business combination has not been consummated by that date. As of October 26, 2005, approximately \$21,565,509.96 was held in deposit in the trust account. Subsequent to its initial public offering, Sand Hill’s officers and directors



commenced an active search for a prospective operating business.

Beginning in September 2004, Sand Hill began evaluating companies in the IT security industry that had been identified to it by an industry survey commissioned by Sand Hill from research firm Trusted Strategies, which identified St Bernard as a potentially attractive candidate for a business combination with Sand Hill. In November of 2004, Mr. Polanen telephoned Mr. van Hedel of St. Bernard, to explain the Sand Hill vehicle and discuss whether St. Bernard had any interest in beginning initial discussions regarding a possible business combination. Mr. van Hedel informed Mr. Polanen that St. Bernard was not interested in pursuing strategic discussions with Sand Hill at that time, but that the parties should remain in contact.

St. Bernard Software has regularly evaluated its long-term strategy and potential strategic options, including periodically conducting in-depth operations and strategic reviews of the company with senior management. During the latter part of 2004 and early 2005, St. Bernard undertook an evaluation of the appropriate long-term strategy for its business. As a result of that process, St. Bernard determined that, in conjunction with other strategic initiatives, it should also began to investigate possible business combinations and other strategic transactions that would allow it to expand its security products and service offerings into one or more other key areas of the small and medium enterprise secure content management market

In February 2005, Mr. van Hedel sent Mr. Polanen an update on the business of St. Bernard. On March 25, 2005, Sand Hill and St. Bernard executed a mutual non-disclosure agreement and on March 30 and April 1, 2005, exchanged initial information packages. On May 3, 2005, Mr. Polanen and Mr. van Hedel met in Los Angeles to discuss the parties' interest in pursuing a possible business combination and agreed to have further discussions.

In early June 2005, St. Bernard sent Sand Hill updated business and financial information. On June 10 and June 13, 2005, Mr. Polanen and Mr. van Hedel had various telephone conversations regarding St. Bernard's business and aspects of a possible business combination, in preliminary and general terms. On June 13, 2005, Sand Hill sent a non-binding, preliminary letter of interest to Mr. van Hedel, which Mr. van Hedel forwarded on to St. Bernard's board of directors on June 14, 2005.

From late June 2005 until early September 2005, Mr. Polanen, Mr. van Hedel and representatives and advisors of both Sand Hill and St. Bernard, met and had various telephone conversations regarding due diligence, the business of St. Bernard, the assets of Sand Hill and the possible terms of a letter of intent for a potential business combination. On September 6, 2005, Sand Hill and St. Bernard executed a non-binding letter of intent related to a business combination. Sand Hill's counsel began legal due diligence investigations in early September 2005. On September 7, 2005, Software Equity Group, Sand Hill's financial advisor, met with management of St. Bernard to assess certain St. Bernard business issues.

The parties and their counsel met in San Diego on October 7, 2005 to begin negotiating the terms of a draft merger agreement and ancillary documentation. Between this date and the date the merger agreement was executed, representatives of Sand Hill and St. Bernard and their counsel had numerous phone conversations, teleconferences to discuss the terms of the merger agreement and the ancillary documentation and exchanged numerous drafts via email. Due diligence continued to be conducted by both parties during this time.

On October 24, 2005, the Sand Hill board of directors met by teleconference to discuss the proposed business combination. At that meeting the Sand Hill board of directors approved the business combination and the form of the merger agreement presented to them and authorized the officers of Sand Hill to proceed to complete the merger agreement.

On October 25, 2005, the St. Bernard board of directors met by teleconference to discuss the proposed business combination. At that meeting the St. Bernard board of directors approved the business combination and the form of the merger agreement presented to them and authorized the officers of St. Bernard to proceed to complete the merger agreement.

From October 24, 2005 through October 26, 2005, counsel for Sand Hill and St. Bernard negotiated the terms of the merger agreement and the ancillary documentation through a series of telephone conference calls and email exchanges.

On October 26, 2005, the parties executed the merger agreement.



### **Sand Hill Reasons for the Merger**

The Sand Hill board of directors has concluded that the merger with St. Bernard is in the best interests of Sand Hill and its stockholders. As a Targeted Acquisition Corporation, or TAC, we were formed based on the premise that there would be attractive investment opportunities in the IT security industry. In seeking out a candidate for a business combination within the IT security industry, the board felt that the following considerations should be of primary importance:

- the business combination candidate should be in an attractive segment within the IT security industry;
- that market segment should have attractive growth characteristics;
- the business combination candidate should be a company that is well positioned in the industry, with a scalable business model and at least \$20 million in annual sales and near breakeven profitability;
- the business combination candidate should be a company with a number of customers in at least two segments;
- the business combination candidate should be a company with a strong management team;
- the business combination candidate should be a company well positioned to take advantage of market consolidation, and;
- the proposed transaction should be efficiently structured, with customary provisions for transactions of this type.

The Sand Hill board of directors considered a wide variety of factors in connection with its evaluation of the merger. In light of the complexity of those factors, the Sand Hill board of directors did not consider it practicable to quantify or otherwise assign relative weights to the specific factors it considered in reaching its decision. In addition, individual members of the Sand Hill board of directors may have given different weight to different factors. The analysis of the Sand Hill board of directors in reaching this conclusion is described in more detail below. In considering the merger with St. Bernard, the Sand Hill board gave considerable weight to the following positive factors:

#### ***St. Bernard is in an industry and has a market focus that is attractive.***

An important criterion to Sand Hill's board of directors in identifying a candidate for a business combination was that the company be positioned in an expanding portion of the IT security industry with the potential for continued growth. Sand Hill's board of directors believes that the markets in which St. Bernard operates are strong and growing. Although the overall security market characteristics continue to be attractive, in particular the Sand Hill board of directors believes that the SCM segment is especially attractive. The worldwide secure content management market addressed by St. Bernard, according to IDC, was \$4.5 billion in 2004 and is expected to grow at an average annual rate of 18% through 2009. Moreover, IDC reports that the web and email filtering portion of the SCM market was \$433 million in 2004, with the appliances portion of this segment anticipated to grow at an average annual rate of 47% through 2009. With the recent major releases of the iPrism and ePrism product lines, Sand Hill's board of directors believes that St. Bernard has the ability to attract customers and to capitalize on this market opportunity.

St. Bernard focuses on the relatively underserved and high growth SME segment of the market. As estimated by AMI Partners, an SME oriented research firm, there are 232,000 small to medium sized businesses in the U.S. SME is defined as businesses ranging from 50 to 999 employees. According to a study by AMI conducted in 2005, the SME segment is underserved, or under penetrated, in that only 22% of all small to medium businesses have installed comprehensive security management solutions. We believe that this indicates that there is a real opportunity for growth in this segment. According to this same AMI report, a total of an additional 15% of the SME market, or 35,000

businesses, plan to purchase security management solutions in 2006, representing a growth rate of 73% year over year. We additionally believe that the focus on SME is beneficial because security appliances tend to serve the market well. Brian Burke, an analyst with IDC research recently stated, "Security appliance sales will grow fast in the SME market because IT resources are scarce."

***St. Bernard has experienced solid growth.***

St. Bernard has recently experienced attractive growth in its market. From 2000 to the end of 2004, St. Bernard has grown 182% based on revenue and was recently awarded a Deloitte “Technology Fastest 50” award. Specifically, for the nine months ended September 30, 2005, St. Bernard’s revenue totaled \$18.1 million, an increase of 16.0% as compared to the same period in 2004. For the quarter ended September 30, 2005, St. Bernard's revenue was 41% higher than in the same quarter last year.

***St. Bernard has an attractive business model and solid financial results.***

Another important factor in identifying a candidate for a business combination was that the candidate have established business operations, that it was generating meaningful revenues and that it had the strong potential to experience rapid additional growth in the security markets. Sand Hill’s board of directors believes that St. Bernard has in place the infrastructure for strong business operations, a large and growing customer base, and significant technological capabilities. St. Bernard has been in operation since 1995 and for the year ended December 31, 2004 generated over \$21 million in revenues and over \$18 million through September 30, 2005. Since 1995, St. Bernard has demonstrated the ability to introduce new products into the marketplace addressing new customer requirements and segments of the security software industry. Sand Hill’s board of directors believes that St. Bernard has the ability to continue expanding and accelerate its growth rate because:

St. Bernard has approximately 8,000 customers;

St. Bernard has customer renewal rates, approximating 85-90%; and

St. Bernard has attractive new business opportunities in the SCM market.

In addition, Sand Hill’s board of directors believes that as St. Bernard generates increased revenues its net margins will increase as it believes that because of St. Bernard's cost structure and the scalability of those costs that St. Bernard's costs will not rise proportionately with its revenues. Furthermore, St. Bernard has reached operating profit breakeven and, due to its subscription business model where billings exceed revenue recognition, is operating at a positive cash flow.

The subscription element of St. Bernard’s business is particularly attractive because it operates as a “Software as a Service”, or a “SaaS” model. We believe that this represents a stable portion of the revenue base. As an example, customers subscribe to a URL database service for periods of anywhere from 1 to 3 years. This URL database is organized into more than 60 categories and encompasses more than 6 million websites as of September 30, 2005. This database is updated each business day using a proprietary process of automated content assessment and classification, with manual verification. Subscribers to the update service receive updates each night. It is this security update subscription that we believe helps create long term customer relationships, as well as providing for better predictability of future revenue. St. Bernard had deferred revenues of \$15.2 million as of September 30, 2005. Although the cash is received up front, this deferred revenue is generally recognized over the life of the contract. The result is that billings for the business are greater than the revenue booked in any quarter. For example, revenue for the nine months ending September 30, 2005 was \$18.1 million, whereas billings were \$21.5 million. The result is an increase to deferred revenue, as recorded on the balance sheet, and, we believe, an enhanced predictability to the business.

***St. Bernard has a strong management team.***

Another important criterion to Sand Hill’s board of directors in identifying a candidate for a business combination was that the company must have a seasoned management team with specialized knowledge of the markets within which it

operates and the ability to lead a company in a rapidly changing environment. St. Bernard's management has been in place and working together for a number of years. This team has demonstrated the ability to address new markets, develop new products and deliver a high level of customer satisfaction. St. Bernard's management team has shown a strong ability to adjust its business plan to changing market factors and to develop additional business opportunities. Sand Hill's board of directors believes that John Jones has the experience and strong understanding of the software security market and of potential needs of customers and how to best satisfy those needs.

*The terms of the merger agreement are attractive.*

The transaction is efficiently structured, attractively valued as compared against weighted industry averages and contains customary provisions for transactions of this type, including provisions to protect Sand Hill in the event an alternative transaction is proposed to St. Bernard. It was important to Sand Hill's board of directors that the merger agreement include customary provisions as it believed that such provisions would allow for a more efficient closing process and lower transaction expenses.

In reaching its belief that the transaction was attractively valued against weighted industry averages the board reviewed publicly available information related to software companies that the board felt were similar to St. Bernard and publicly available information related to merger transactions that the board felt were similar to this transaction. The board focused on, amongst other things, the price/revenue multiples that have been accorded public companies in the software industry, as the board felt that this valuation metric was the most relevant metric for valuing St. Bernard.

Sand Hill's board of directors believes that each of the above factors supports its determination and recommendation to approve the merger. The Sand Hill board of directors did, however, consider the following potentially negative factors, among others, in its deliberations concerning the merger:

- The IT Security market is intensely competitive;
- There may be significant industry consolidation;
- The technologies used in the industry adjust and upgrade quickly;
- St. Bernard is smaller than the industry leaders;
- St. Bernard has a relatively small footprint internationally;
- St. Bernard has a limited reseller channel;
- St. Bernard has a history of losses and negative cash flow; and
- Not all of St. Bernard's products lines are growing at the same rate.

Additionally, Sand Hill's board of directors considered the risk that some of the current public stockholders of Sand Hill would vote against the merger and demand to redeem their shares for cash upon consummation of the merger, thereby depleting the amount of cash available to the combined company following the merger. Sand Hill's board of directors deemed this risk to be no worse with regard to St. Bernard than it would be for other target companies and believes that St. Bernard will still be able to implement its business plan even if the maximum number of public stockholders exercised their conversion rights and the combined company received only 80% of the funds deposited in the trust account.

After deliberation, the Sand Hill board of directors determined that these potentially negative factors were outweighed by the potential benefits of the merger described above, including the opportunity for Sand Hill stockholders to share in St. Bernard's future possible growth, anticipated profitability, and the potential for increased shareholder value.



## **Due Diligence**

A majority of the members of Sand Hill's board of directors have extensive experience in performing due diligence of acquisition targets and in valuing companies. Humphrey Polanen and Scott Broomfield have held Chief Executive Officer positions at companies that have acquired businesses and performed business valuations assessing the merits of merger and acquisition transactions. Keith Walz is currently a Managing Director of a venture capital fund and performs business valuations on a regular basis in his position. In arriving at its determination to approve the merger agreement with St. Bernard, the board of directors of Sand Hill relied on information (including financial information) relating to St. Bernard and the industry dynamics. In addition, Sand Hill retained the services of the Software Equity Group, as financial advisors to assist Sand Hill with respect to a business combination. Based upon the proposed cost of a fairness opinion, Sand Hill's existing cash resources and Sand Hill's belief that its directors had the skill and experience to properly evaluate the fairness of a proposed transaction, Sand Hill determined that its assets should not be used to pay for a fairness opinion.

## **Interests of Sand Hill Directors and Officers in the Merger**

In considering the recommendation of the board of directors of Sand Hill that you vote in favor of the adoption of the merger proposal, you should be aware that a number of Sand Hill's executives, and members of Sand Hill's board have interests in the merger that differ from, or are in addition to, those of Sand Hill stockholders generally. In particular if the merger is not approved and Sand Hill fails to consummate an alternative transaction within the time allotted pursuant to its certificate of incorporation and Sand Hill is therefore required to liquidate, the shares of common stock purchased prior to Sand Hill's initial public offering and held by Sand Hill's executives and directors may be worthless because Sand Hill's executives and directors are not entitled to receive any of the net proceeds of Sand Hill's initial public offering that may be distributed upon liquidation of Sand Hill with respect to these shares. In addition, the warrants held by such persons will expire without value in the event of a liquidation. On the record date, directors and executive officers of Sand Hill and their affiliates beneficially owned and were entitled to vote approximately 1,000,000 shares of Sand Hill's common stock that have a market value of \$5,270,000 based on Sand Hill's common stock price of \$5.27 per share as of October 26, 2005. The total of these shares represented approximately 19.6% of Sand Hill's issued and outstanding common stock. However, as Sand Hill's executive officers and directors are contractually prohibited from selling their shares prior to July 26, 2007 during which time the value of these shares may increase or decrease, it is impossible to determine what the financial impact of the merger will be on Sand Hill's officers and directors. Finally, if Sand Hill liquidates prior to the consummation of a business combination, Humphrey P. Polanen, chairman of the board and chief executive officer will be personally liable to pay debts and obligations to vendors or other entities that are owed money by Sand Hill for services rendered or products sold to Sand Hill in excess of the net proceeds of Sand Hill's initial public offering not held in the trust account.

The Sand Hill board of directors was aware of these interests during its deliberations on the merits of the merger and in determining to recommend to the stockholders of Sand Hill that they vote for the adoption of the merger proposal.

## **Appraisal or Dissenters Rights**

No appraisal or dissenters rights are available under the Delaware General Corporation Law for the stockholders of Sand Hill in connection with the merger proposal.

## **Material United States Federal Income Tax Consequences of the Merger**

The following describes the material U.S. federal income tax considerations of the merger that are generally applicable to the holders of St. Bernard common stock and the holders of Sand Hill common stock. This discussion is based on the Internal Revenue Code of 1986, as amended (referred to as the Code), existing, temporary, and proposed Treasury regulations thereunder, current administrative rulings and judicial decisions, all as currently in effect and all

of which are subject to change (possibly with retroactive effect) and to differing interpretations. This discussion applies only to St. Bernard that hold their St. Bernard common stock and Sand Hill stockholders that hold their Sand Hill common stock as a capital asset within the meaning of Section 1221 of the Code. Further, this discussion does not address all aspects of United States federal taxation that may be relevant to a particular holder of St. Bernard common stock or Sand Hill common stock in light of such holder's personal circumstances or to holders subject to special treatment under the United States federal income tax laws, including:

- financial institutions,
- investors in pass-through entities,
- insurance companies,
- tax-exempt organizations,
- dealers in securities or currencies,
- traders in securities that elect to use a mark to market method of accounting,
- persons that hold Sand Hill common stock or St. Bernard common stock as part of a straddle, hedge, constructive sale or conversion transaction,
- persons who are not citizens or residents of the United States, and
- shareholders who acquired their shares of Sand Hill common stock or their shares of St. Bernard common stock through the exercise of an employee stock option or otherwise as compensation.

In addition, this discussion does not address any alternative minimum or any state, local or foreign tax consequences of the merger.

Neither Sand Hill nor St. Bernard intends to request a ruling from the Internal Revenue Service as to the United States federal income tax consequences of the merger.

Each holder of Sand Hill common stock or St. Bernard common stock should consult its tax advisor with respect to the particular tax consequences of the merger to such holder based on the holder's specific circumstances, applicable state, local, and foreign tax consequences and potential changes in applicable tax laws.

*Reorganization.* It is a condition to the obligation of St. Bernard to complete the merger that it receives an opinion from its counsel, Duane Morris LLP, dated as of the closing date of the merger, that the merger will constitute a reorganization within the meaning of Section 368(a) of the Code. In rendering this opinion, St. Bernard's counsel will rely on representations and covenants made by St. Bernard, Sand Hill, Sand Hill Merger Corp. and others. This opinion will also rely on assumptions, including assumptions regarding the absence of changes in existing facts and the completion of the merger in the manner contemplated by the merger agreement. If any of these representations, covenants or assumptions is inaccurate, St. Bernard's counsel may not be able to render the required opinion and the tax consequences of the merger may differ from those discussed below. Opinions of counsel are not binding on either the Internal Revenue Service or the courts and do not preclude the Internal Revenue Service from adopting a contrary position. In addition, neither St. Bernard nor Sand Hill intends to request a ruling from the Internal Revenue Service regarding the United States federal income tax consequences of the merger. Consequently, no assurance can be given that the Internal Revenue Service will not assert, or a court would not sustain, a position contrary to any of those set forth below. The following discussion is based on the assumption that the merger will qualify as a reorganization for federal income tax purposes.

*Tax Consequences of the Merger to St. Bernard Stockholders.*

The merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. As a consequences:

·no gain or loss will be recognized by stockholders of St. Bernard who receive solely shares of Sand Hill common stock in exchange for shares of St. Bernard common stock;

- the aggregate tax basis of the shares of Sand Hill common stock received in the merger will be equal to the aggregate tax basis of the shares St. Bernard common stock exchanged therefor; and
- the holding period of the Sand Hill common stock received in the merger will include the holding period of the St. Bernard common stock exchanged therefor.
- any St. Bernard stockholder who exercises his or her appraisal rights and who receives cash in exchange for his or her shares of St. Bernard common stock generally will recognize gain or loss measured by the difference between the amount of cash received and the tax basis of such stockholder's shares of St. Bernard common stock exchanged therefor. This gain or loss will generally be long-term capital gain or loss if the holder's holding period with respect to the St. Bernard common stock surrendered is more than one year at the effective time of the merger.

*Tax Consequences of the Merger to Sand Hill Stockholders.*

No gain or loss will be recognized by the stockholders of Sand Hill pursuant to the merger who do not exchange their shares of Sand Hill common stock pursuant to the merger, continue to own such shares of Sand Hill, and do not exercise their conversion rights.

A stockholder of Sand Hill who exercises their conversion rights and effects a termination of the stockholder's interest in Sand Hill will generally be required to recognize gain or loss upon the exchange of that stockholder's shares of Sand Hill common stock for cash. Such gain or loss will be measured by the difference between the amount of cash received and the tax basis of that stockholder's shares of Sand Hill common stock. This gain or loss will generally be capital gain or capital loss if the stockholder held the exchanged shares as a capital asset on the date of the merger and that capital gain or loss and will be a long-term capital gain or loss if the holding period for the shares of Sand Hill common stock is more than one year.

*Tax Consequences of the Merger Generally to Sand Hill and St. Bernard.*

No gain or loss will be recognized by Sand Hill or St. Bernard as a result of the merger.

*Reporting and Recordkeeping*

A holder of St. Bernard common stock receiving Interchange common stock as a result of the merger, is required to retain records relating to such holder's St. Bernard common stock and file with its United States federal income tax return a statement setting forth facts relating to the merger and with respect to the holder's nonrecognition of gain or loss upon the exchange of their shares of St. Bernard common stock for shares of Interchange common stock pursuant to the merger. At a minimum, the statement must include (1) the holder's tax basis in the St. Bernard common stock surrendered and (2) the amount of cash (if any) and the fair market value, as of the effective date of the merger, of the Sand Hill common stock received in exchange therefor.

*Backup Withholding and Information Reporting.*

Payments of cash to a holder of St. Bernard common stock as a result of an exercise of their dissenters rights and payments of cash to a holder of Sand Hill common stock as a result of an exercise of their conversion rights may, under certain circumstances, be subject to information reporting and backup withholding at a rate of 28% of the cash payable to the holder, unless the holder provides proof of an applicable exemption satisfactory to Sand Hill and the exchange agent or furnishes its taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a holder under the backup withholding rules are not additional tax and will be allowed as a refund or credit against the holder's United States

federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

To ensure compliance with requirements imposed by the IRS in Circular 230, you are hereby informed that (i) any tax advice contained in this registration statement is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Code, (ii) any such advice is written to support the matters addressed herein, and (iii) each shareholder should seek tax advice based on its particular circumstances from an independent tax advisor.

BECAUSE THE COMPLEXITY OF THE TAX LAWS, AND BECAUSE THE TAX CONSEQUENCES TO ANY PARTICULAR STOCKHOLDER MAY BE AFFECTED BY MATTERS NOT DISCUSSED ABOVE, EACH SAND HILL STOCKHOLDER IS URGED TO CONSULT A TAX ADVISOR WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF THE TRANSACTIONS CONTEMPLATED BY THE MERGER AGREEMENT TO HIM, HER OR IT, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND NON-U.S. TAX LAWS, AS WELL AS FEDERAL TAX LAWS.

### **Anticipated Accounting Treatment**

The merger will be accounted for under the reverse acquisition application of the equity recapitalization method of accounting in accordance with U.S. generally accepted accounting principles for accounting and financial reporting purposes. Under this method of accounting, Sand Hill will be treated as the “acquired” company for financial reporting purposes. In accordance with guidance applicable to these circumstances, the merger will be considered to be a capital transaction in substance. Accordingly, for accounting purposes, the merger will be treated as the equivalent of St. Bernard issuing stock for the net monetary assets of Sand Hill, accompanied by a recapitalization. The net monetary assets of Sand Hill will be stated at their fair value, essentially equivalent to historical costs, with no goodwill or other intangible assets recorded. The accumulated deficit of St. Bernard will be carried forward after the merger. Operations prior to the merger will be those of St. Bernard.

### **Regulatory Matters**

The merger and the transactions contemplated by the merger agreement are not subject to the HSR Act or any federal or state regulatory requirement or approval except for filings necessary to effectuate the transactions contemplated by the merger proposal with the Secretary of State of the State of Delaware.

### **Consequences if Merger Proposal is Not Approved**

If the merger proposal is not approved by the stockholders, Sand Hill Merger Corp. will not merge with St. Bernard and Sand Hill will continue to seek other potential business combinations with an operating business in the IT security industry.

### **Vote Required to Adopt the Merger Proposal**

The adoption of the merger agreement and the transaction contemplated by the merger agreement will require the affirmative vote of the holders of a majority of the outstanding shares of Sand Hill common stock on the record date. However, Sand Hill will not be able to complete the merger if the holders of 20% or more of the shares of common stock issued in Sand Hill’s initial public offering vote against the merger and demand that Sand Hill convert their shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill’s initial public offering are held.

### **Recommendation of the Sand Hill Board of Directors**

**After careful consideration, Sand Hill’s board of directors has determined unanimously that the merger is fair to and in the best interests of Sand Hill and its stockholders. Sand Hill’s board of directors has approved and declared advisable the merger agreement and the transactions contemplated by the merger agreement and unanimously recommends that you vote or give instructions to vote “FOR” the proposal to adopt the merger proposal.**

The discussion of the information and factors considered by the Sand Hill board of directors is not meant to be exhaustive, but includes the material information and factors considered by the Sand Hill board of directors.



## THE MERGER AGREEMENT

The following summary of the material provisions of the merger agreement, as amended, is qualified by reference to the complete text of the merger agreement, as amended, a copy of which is attached as Annex A to this proxy statement/prospectus. The merger agreement was executed on October 26, 2005 and amended on December \_\_, 2005. The following summary describes the merger agreement. All stockholders are encouraged to read the merger agreement in its entirety for a more complete description of the terms and conditions of the merger.

### Structure of the Merger

At the effective time of the merger, Sand Hill Merger Corp. will be merged with and into St. Bernard. St. Bernard will continue as the surviving company and become a wholly-owned subsidiary of Sand Hill.

### Closing and Effective Time of the Merger

The closing of the merger will take place on the second business day following the satisfaction of the conditions described below under “*The Merger Agreement—Conditions to the Completion of the Merger*”, or, if on that day any condition to the respective obligations of either Sand Hill or St. Bernard has not been satisfied or waived, as soon as practicable after all the conditions described below under “*The Merger Agreement—Conditions to the Completion of the Merger*” have been satisfied, unless Sand Hill and St. Bernard agree in writing to another time.

The merger will become effective at the time the articles of merger are filed with the Delaware Secretary of State, or at a later time agreed to by Sand Hill and St. Bernard in the articles of merger. The articles of merger will be filed at the time of the closing or as soon as practicable thereafter.

### Amendment and Restatement of Sand Hill Certificate of Incorporation

Following consummation of the merger, Sand Hill’s amended and restated certificate of incorporation and bylaws will be amended and restated to remove certain provisions related to a business combination that were put in place as a result of our being a Targeted Acquisition Corporation.

### Name; Headquarters; Stock Symbol

After completion of the merger:

• Sand Hill will change its name to St. Bernard Software, Inc. and the surviving company will change its name to \_\_\_\_\_;

• the corporate headquarters and principal executive offices will be located at 15015 Avenue of Science, San Diego, California, which is currently St. Bernard’s corporate headquarters; and

• Sand Hill will cause the symbol under which Sand Hill’s units, common stock, and warrants outstanding prior to the merger are traded on the OTC Bulletin Board, the Nasdaq Stock Market or the American Stock Exchange to change to a symbol as determined by St. Bernard and Sand Hill that, if available, is reasonably representative of the corporate name or business of St. Bernard.

### Merger Consideration

Pursuant to the merger agreement, the holders of St. Bernard common stock will be entitled to receive approximately 0.421419 shares of Sand Hill common stock for each share of St. Bernard common stock held by them. Holders of options and warrants to purchase shares of the common stock of St. Bernard will receive, in exchange for those options and warrants, options and warrants to purchase approximately 1,120,400 shares of the common stock of Sand Hill in the aggregate.

The aggregate number of shares of Sand Hill common stock to be issued in the merger will be adjusted upwards or downwards by the number of shares obtained by dividing the amount by which the working capital of St. Bernard at the closing of the merger is greater than \$1,900,000 or less than \$1,700,000, by \$5.10. In calculating the working capital of St. Bernard, expenses incurred by St. Bernard in relation to this transaction will not be taken into account.

Sand Hill shall file, as soon as practicable after the closing date and as permitted by applicable securities regulations, a registration statement on Form S-8 under the Securities Act of 1933, as amended, and shall use its reasonable efforts to cause such registration statement to become effective as soon thereafter as practicable and to maintain such registration in effect until the exercise or expiration of such assumed outstanding options.

### **Exchange of Certificates**

Immediately prior to the consummation of the merger, Sand Hill will deposit with American Stock Transfer & Trust Company, as exchange agent, certificates representing the shares of Sand Hill common stock issuable to the holders of St. Bernard common stock, less the amount to be escrowed, in exchange for outstanding shares of St. Bernard common stock. Immediately following the consummation of the merger, the exchange agent will deliver to each record holder of St. Bernard common stock instructions and a letter of transmittal for exchanging their St. Bernard stock certificates for Sand Hill stock certificates. In order to effectuate the exchange of St. Bernard common stock for Sand Hill common stock, the stockholders must comply with the instructions set forth in the letter of transmittal.

No fraction of a share of Sand Hill common stock will be issued in the merger. In lieu of any fractional shares, the fractional amount of Sand Hill common stock to which any holder of St. Bernard common stock is entitled to receive will be rounded up to the nearest whole number, and such holder shall receive a whole share of Sand Hill common stock in lieu of a fractional share.

### **Representations and Warranties**

The merger agreement contains a number of generally reciprocal representations and warranties that each of St. Bernard and Sand Hill made to the other. These generally reciprocal representations and warranties relate to:

- organization, standing, and power;
- subsidiaries and equity interests;
- capital structure;
- authorization, execution, delivery, and enforceability of the merger agreement;
- absence of conflicts or violations under organizational documents, certain agreements and applicable laws or decrees, as a result of the contemplated transaction, and receipt of all required consents and approvals;
- information supplied for inclusion in this proxy statement/prospectus;
- absence of certain changes or events since December 31, 2004, in the case of St. Bernard, or June 30, 2005, in the case of Sand Hill;
- taxes;
- employee benefit plans;

- litigation;

- compliance with applicable laws;
- contracts, debt instruments;
- absence of brokers;
- real property;
- related party transactions;
- permits;
- insurance;
- intellectual property; and
- completeness and truthfulness of the information and provisions in the merger agreement,

St. Bernard also makes representations to Sand Hill regarding:

- accuracy of the information contained in the financial statements, and the absence of undisclosed liabilities;
- labor relations;
- environmental liability;
- customers and suppliers; and
- product warranties.

Sand Hill also makes representations to St. Bernard regarding:

- filings with the Securities and Exchange Commission and the accuracy and completeness of the information contained in those filings, including the financial statements and the lack of undisclosed liabilities;
- amount of funds contained in the trust account, and the termination after the merger of the obligation to liquidate; and
- no status as an investment company.

### **Materiality and Material Adverse Effect**

Many of the representations and warranties made by St. Bernard are qualified by materiality or material adverse effect. For the purposes of the merger agreement, a material adverse effect means a material adverse effect with respect to St. Bernard on the business, financial condition or results of operations of St. Bernard and every subsidiary of St. Bernard. A change or effect is excluded from having a material adverse effect with respect to St. Bernard if it arises out of or is related to:

- changes in general economic conditions relating to the market in which St. Bernard operates;
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any effect directly resulting from the public announcement or pendency of the transactions contemplated by the merger agreement; or

- terrorist attack, act of war or other event beyond St. Bernard's control.

Several of the representations and warranties made by Sand Hill are qualified by materiality. However, only Sand Hill's representations and warranties related to the absence of certain changes from June 30, 2005, and the completeness and truthfulness of the information and provisions in the merger agreement are qualified by material adverse effect. A change or effect is excluded from having a material adverse effect with respect to Sand Hill for purposes of the latter representation and warranty if it relates to:

- changes in general economic conditions relating to the market in which Sand Hill operates;

any effect directly resulting from the public announcement or pendency of the transactions contemplated by the merger agreement; or

- terrorist attack, act of war or other event beyond Sand Hill's control.

### **Interim Operations of Sand Hill and St. Bernard**

*Interim covenants relating to Sand Hill and St. Bernard.* Under the merger agreement, each of Sand Hill and St. Bernard has agreed, and has agreed to cause their respective subsidiaries, prior to completion of the merger, to conduct its business in the usual, regular and ordinary course in substantially the same manner as previously conducted, except as expressly permitted by the merger agreement or related agreements. In addition to this agreement regarding the conduct of business generally, subject to specified exceptions, each of St. Bernard and Sand Hill has agreed that it:

- will not declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock;
- will not split, combine or reclassify any of its shares of capital stock or issue or authorize the issuance of any other securities in respect of, or in lieu of or in substitution for its capital stock;
- will not purchase, redeem or otherwise acquire shares of its capital stock or any other securities thereof or any rights, warrants or options to acquire any such interests or other securities;
- will not adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, recapitalization, or other reorganization, or alter through merger, liquidation, reorganization or restructuring or in any other fashion the corporate structure or ownership of Sand Hill or St. Bernard;
- will not pledge any shares of its capital stock;
- will not issue, deliver, sell or grant any shares of its capital stock, any securities convertible into or exchangeable for, or any options, warrants or rights to acquire, any shares of capital stock, or any "phantom" rights or interest-based performance units;
- will not amend its organizational documents, except, in the case of Sand Hill, as required by the merger agreement;
- will not acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any equity interest in or business of any corporation, partnership, joint venture, association or other business organization or division thereof, or any assets in excess of \$50,000 in the aggregate;
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will not sell, transfer, deliver, lease, license, sublicense, mortgage, pledge, encumber or otherwise dispose of, in whole or in part, or create, incur, assume or allow any lien on, any of its assets, including any intellectual property, other than in the ordinary course of business consistent with past practice, but in no event shall such dispositions exceed \$50,000 individually or \$150,000 in the aggregate, or pursuant to the terms of contracts entered into as of October 26, 2005, and which were disclosed at the time the merger agreement was executed;



- will not enter into or amend any contract, transaction, indebtedness or other arrangement in which any of its directors or other affiliates, or any of their respective affiliates or family members have a direct or indirect financial interest;
- will not make any change in its accounting methods, principles or practices, except as required by a change in general accepted accounting principles;
  - will not incur any indebtedness for borrowed money or guarantee any such indebtedness of another person, issue or sell any debt securities or warrants or other rights to acquire any debt securities, guarantee any debt securities of another person, enter into any “keep well” or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing, or make any loans, advances or capital contributions to, or investments in, any other person;
- will not make or agree to make any new capital expenditure or expenditures, except that St. Bernard may make such an expenditure so long as the expenditure does not exceed \$25,000 in an individual case and \$50,000 in the aggregate for all cases;
  - will not make any material tax election or settle or compromise any material tax liability or refund;
- will not enter into any transaction with, or enter into any agreement, arrangement, or understanding with any of its affiliates that would be required to be disclosed pursuant to Item 404 of SEC Regulation S-B;
  - will not take, authorize, commit or agree to take any of the foregoing actions; or
- will not take any action that would, or that could reasonably be expected to, result in any of its representations and warranties in the merger agreement and related agreements becoming untrue or any condition described below under “*The Merger Agreement—Conditions to the Completion of the Merger*,” not being satisfied; and
- will promptly advise the other party orally and in writing of any change or event that has or could reasonably be expected to result in a breach of its respective representations, warranties, covenants or agreements contained in the agreements to be signed by them in connection with the merger.

*Interim covenants relating to St. Bernard.* The merger agreement restricts, among other things, the ability of St. Bernard to:

- pay, discharge, satisfy or settle any litigation, except any settlement that would not (i) impose any injunctive or similar order on St. Bernard or any of its subsidiaries, or restrict in any way the business of St. Bernard or any of its subsidiaries, or (ii) exceed \$50,000 in cost or value to St. Bernard or any of its subsidiaries in the aggregate for all such settlements;
- hire or terminate any employee or consultant where the annual salary or fee associated with such employment or consulting agreement is in excess of \$150,000 or has a term of more than one year, or grant to any of the employees, officers or directors of St. Bernard or any of its subsidiaries any increase in compensation, fringe benefits, severance in excess of \$50,000 or termination pay, except in the ordinary course of business or to the extent required under employment agreements or policies in effect as of October 26, 2005;
- enter into any employee benefit agreement, trust, plan, fund award or other arrangement for the benefit or welfare of any director, officer or employee; or

enter into or modify in any respect any labor or collective bargaining agreement or any other agreement or commitment to or relating to any labor union, except as otherwise required by law.

*Interim covenants relating to Sand Hill.* The merger agreement restricts, among other things, the ability of Sand Hill to:

- grant to any employee, executive officer or director of Sand Hill any increase in compensation;
  - grant to any employee, executive officer or director of Sand Hill any increase in severance or termination pay;
- enter into any employment, consulting, indemnification, severance or termination agreement with any employee, executive officer or director of Sand Hill;
- establish adopt, enter into or amend in any respect any collective bargaining agreement, any other agreement or commitment to or relating to any labor union; or
- make any determination under any collective bargaining agreement, any other agreement or commitment to or relating to any labor union or any employee benefit plan.

#### **No Solicitation by St. Bernard**

Except as described below, St. Bernard will not:

- solicit, initiate, encourage, induce or facilitate the making, submission or announcement of any acquisition proposal;
  - furnish any information regarding St. Bernard to any person in connection with or in response to an acquisition proposal;
  - engage in discussions or negotiations with any person with respect to any acquisition proposal;
  - approve, endorse or recommend any acquisition proposal; or
- enter into any letter of intent or similar document or any contract contemplating or otherwise relating to any acquisition transaction.

The above restrictions also apply to St. Bernard's officers, directors, employees, representatives or agents.

However, if St. Bernard receives a bona fide written acquisition proposal which was not solicited by St. Bernard, it may, before the merger agreement is adopted by its stockholders, furnish information regarding itself to the person making the acquisition proposal and participate in discussions, with the person regarding the acquisition proposal, if:

neither St. Bernard, nor any of its officers, directors, employees, representatives or agents has violated any of the no solicitation provisions described above;

the board of directors of St. Bernard determines in good faith, after having taken into account the advice of its outside legal counsel, that such action is required in order for the board to comply with its fiduciary obligations to St. Bernard's stockholders under applicable law;

at least two business days prior to furnishing any such nonpublic information to, or entering into discussions with, such person, St. Bernard gives Sand Hill written notice of the identity of such person and of St. Bernard's intention to

furnish nonpublic information to, or enter into discussions with, such person, and St. Bernard receives from such person an executed confidentiality agreement on terms substantially similar to the one entered into between St. Bernard and Sand Hill, containing customary limitations on the use and disclosure of all nonpublic written and oral information furnished to such person by or on behalf of St. Bernard; and

at least one business day prior to furnishing any such nonpublic information to such person, St. Bernard furnishes such nonpublic information to Sand Hill, to the extent that such nonpublic information has not been previously furnished by St. Bernard to Sand Hill

St. Bernard has agreed not to withdraw or modify, or propose to withdraw or modify, in a manner adverse to Sand Hill, the approval by its board of directors of the merger agreement or the merger or the recommendation by the board of directors of St. Bernard of the transactions contemplated by the merger agreement. However, the board of directors of St. Bernard may withdraw or modify its approval or recommendation of the merger agreement and the transactions contemplated thereby in a manner adverse to Sand Hill if:

any offer, proposal, inquiry or indication of interest contemplating an acquisition of St. Bernard, other than by Sand Hill, is made to St. Bernard and not withdrawn;

St. Bernard provides Sand Hill with at least two business days prior notice of any meeting of St. Bernard's board of directors at which such board will consider and determine whether such acquisition proposal is superior to the transactions contemplated by the merger agreement;

St. Bernard's board of directors determines in good faith, after taking into account the advice of St. Bernard's independent financial advisors, that such acquisition proposal is superior to the transactions contemplated by the merger agreement;

St. Bernard's board of directors determines in good faith, after having taken into account the written advice of St. Bernard's outside legal counsel, that, in light of the superior proposal, the withdrawal or modification of the board's recommendation is required in order for the board of directors to comply with its fiduciary obligations to St. Bernard's stockholders under applicable law; and

neither St. Bernard nor any of its representatives has violated any of the no solicitation provisions described above.

St. Bernard must promptly advise Sand Hill orally and in writing of any acquisition proposal, inquiry or indication of interest that could lead to an acquisition proposal, or any request for nonpublic information relating to St. Bernard (including the identity of the person, group or entity making or submitting such proposal, inquiry, indication of interest or request, and the terms thereof) that is made or submitted by any person group or entity. St. Bernard must keep Sand Hill fully informed on a current basis with respect to the status of any discussions or indications of interest that St. Bernard is engaged in or has issued.

#### **No Solicitation by Sand Hill**

Except as described below, Sand Hill will not:

solicit, initiate, encourage, induce or facilitate the making, submission or announcement of any acquisition proposal;

furnish any information regarding Sand Hill to any person in connection with or in response to an acquisition proposal;

- engage in discussions or negotiations with any person with respect to any acquisition proposal;
- approve, endorse or recommend any acquisition proposal; or

enter into any letter of intent or similar document or any contract contemplating or otherwise relating to any acquisition transaction.

The above restrictions also apply to Sand Hill's officers, directors, employees, representatives or agents.

However, Sand Hill may, before the merger agreement is adopted by its stockholders, engage in discussions with and issue indications of interest to parties in the IT security industry if:

- neither Sand Hill nor any of its stockholders, officers, directors, employees, representative or agents have otherwise breached the no solicitation provisions described above;

- at least two business days prior to issuing any indication of interest, Sand Hill gives St. Bernard written notice of the identity of such person and of Sand Hill's intention to issue an indication of interest to such person; and

- at least one (1) business day prior to issuing such indication of interest, Sand Hill furnishes St. Bernard a copy of the indication of interest.

Sand Hill may not enter into or negotiate the terms of any letter of intent or similar document or any contract contemplating or relating to an acquisition transaction until after Sand Hill has received from St. Bernard notice that St. Bernard has received an acquisition proposal that St. Bernard's board of directors determines in good faith constitutes a proposal superior to the transactions contemplated by the merger agreement.

Sand Hill must promptly advise St. Bernard orally and in writing of any acquisition proposal, inquiry or indication of interest that could lead to an acquisition proposal, or any request for nonpublic information relating to Sand Hill (including the identity of the person, group or entity making or submitting such proposal, inquiry, indication of interest or request, and the terms thereof) that is made or submitted by any person group or entity. Sand Hill must keep St. Bernard fully informed on a current basis with respect to the status of any discussions or indications of interest that Sand Hill is engaged in or has issued.

### **Sand Hill Stockholders' Meeting**

Sand Hill has agreed to call and hold a meeting of its stockholders, as soon as practicable after the date of the merger agreement for the purpose of seeking the adoption of the merger proposal by its stockholders. Sand Hill has also agreed that it will, through its board of directors, recommend to its stockholders that they approve and adopt the merger proposal.

### **Access to Information; Confidentiality**

Sand Hill and St. Bernard will, and will cause their respective subsidiaries to, afford to the other party and its representatives prior to completion of the merger reasonable access during normal business hours to all of their respective properties, books, contracts, personnel and records and will promptly provide to the other party a copy of each document filed pursuant to the requirements of the securities laws of any state or the United States, and all other information concerning its business, properties and personnel as the other party reasonably requests. The information will be held in confidence to the extent required by the provisions of the confidentiality agreement between the two parties.

St. Bernard has agreed to provide Sand Hill:

- within 30 days after the date of the merger agreement, unaudited financial statements for the months of August and September 2005, without notes; and

thereafter within 30 days after the end of each calendar month, unaudited financial statements, without notes, for each such calendar month.

### **Reasonable Efforts; Notification**

Sand Hill and St. Bernard have agreed that they will use all reasonable efforts to take all actions, and to do all things necessary, proper or advisable to consummate the merger and the transactions contemplated by the merger agreement in the most expeditious manner practicable. This includes:

• obtaining all necessary actions or nonactions, waivers, consents and approvals from governmental entities and making all necessary registrations and filings, including filings with governmental entities, if any, and taking all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any governmental entity;

- obtaining all necessary consents, approvals or waivers from third parties;

• defending any lawsuits or other legal proceedings, whether judicial or administrative, challenging the merger agreement or any other agreement contemplated by the merger agreement or the consummation of the merger or other transactions contemplated by the merger agreement, including seeking to have any stay or temporary restraining order entered by any court or other governmental entity vacated or reversed; and

• executing and delivering any additional instruments necessary to consummate the merger or other transactions contemplated by the merger and to fully carry out the purposes of the merger agreement and the transaction agreements contemplated by the merger agreement.

In addition, Sand Hill and St. Bernard will take all action necessary so that no takeover statute or similar statute or regulation is or becomes applicable to the merger, any transaction contemplated by the merger agreement or any agreement contemplated by the merger agreement. If any takeover statute or similar statute or regulation becomes so applicable, Sand Hill and St. Bernard will take all action necessary so that the merger and the other transactions contemplated by the merger agreement may be consummated as promptly as practicable on the terms contemplated by the merger agreement and the agreements contemplated by the merger agreement.

St. Bernard will give prompt notice to Sand Hill, and Sand Hill or Sand Hill Merger Corp. will give prompt notice to St. Bernard, of:

• any representation or warranty made by it or contained in the merger agreement that is qualified as to materiality becoming untrue or inaccurate in any respect or any representation or warranty that is not qualified by materiality becoming untrue or inaccurate in any material respect; or

• the failure by it to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under the merger agreement.

However, no notification will affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under the merger agreement or the agreements contemplated thereby.

### **Fees and Expenses**

Except as specifically provided in the merger agreement, all fees and expenses incurred in connection with the merger and the other transactions contemplated by the merger agreement will be paid by the party incurring such expenses, whether or not the merger is consummated.

## Public Announcements

Sand Hill and Sand Hill Merger Corp., on the one hand, and St. Bernard, on the other hand, have agreed:

to consult with each other before issuing, and provide each other the opportunity to review and comment upon, any press release or other public statements with respect to the merger and the other transactions contemplated by the merger agreement; and

not to issue any press release or make any public statement prior to this consultation, except as may be required by applicable laws or court process.

## Quotation or Listing

Sand Hill's outstanding common stock, warrants and units are currently quoted on the Over-the-Counter Bulletin Board. Sand Hill will use its commercially reasonable efforts to cause its outstanding shares of common stock and warrants and the shares of common stock to be issued in the merger to be approved for quotation on the Nasdaq Stock Market or, if they are not eligible for quotation on Nasdaq, to be listed on the American Stock Exchange, prior to the consummation of the merger.

## Tax Treatment

Sand Hill and St. Bernard intend the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Each of Sand Hill, Sand Hill Merger Corp., and St. Bernard and each of their respective affiliates will not take any action and will not fail to take any action or suffer to exist any condition which action or failure to act or condition would prevent, or would be reasonably likely to prevent, the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

## Pre-Closing Confirmation

Promptly after the date of the merger agreement, Sand Hill gave notice of the merger to the trustee holding in trust certain of the proceeds of Sand Hill's initial public offering. Not later than 48 hours prior to the closing:

- Sand Hill is required to give the trustee advance notice of the completion of the merger; and

Sand Hill will cause the trustee to provide a written confirmation to St. Bernard confirming the dollar amount of the account balance held by the trustee in the trust account that will be released to Sand Hill upon consummation of the merger.

## Conditions to the Completion of the Merger

Each of Sand Hill's and St. Bernard's obligations to effect the merger is subject to the satisfaction or waiver of specified conditions before completion of the merger, including the following:

*Conditions to Sand Hill's and St. Bernard's obligation*

- The receipt of the Sand Hill stockholder approval;
- The receipt of the St. Bernard stockholder approval;

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the effectiveness of the registration statement pursuant to which the shares of Sand Hill's common stock have been registered with the U.S. Securities and Exchange Commission, and the absence of a stop order suspending the effectiveness of the registration statement or the use of this proxy statement/prospectus, or any proceedings for such purposes;

- the absence of any order or injunction preventing consummation of the merger;

the absence of any suit or proceeding by any governmental entity or any other person challenging the merger or seeking to obtain from St. Bernard, Sand Hill or Sand Hill Merger Corp. any damages;

at the Sand Hill special meeting, holders of less than 20% of the shares of common stock issued in Sand Hill's initial public offering will have voted against the adoption of the merger proposal and demanded that Sand Hill convert their shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill's initial public offering are held;

at the time of consummation of the merger, the board of directors of Sand Hill must determine that the fair market value of St. Bernard is at least 80% of the net assets of Sand Hill; and

at the time of consummation of the merger, Sand Hill must have at least \$21,350,000 plus accrued interest from July 31, 2005, in the trust account.

*Conditions to Sand Hill's obligation*

The obligation of Sand Hill and Sand Hill Merger Corp. to effect the merger are further subject to the following conditions:

- St. Bernard's representations and warranties in the merger agreement that are qualified as to materiality must be true and correct and those not qualified as to materiality must be true and correct in all material respects, as of the date of completion of the merger, except for representations and warranties in the merger agreement that address matters as of another date, which must be true and correct as of that other date, and Sand Hill must have received a certificate from the chief executive officer and the chief financial officer of St. Bernard to that effect;

St. Bernard must have performed in all material respects all obligations required to be performed by it under the merger agreement and Sand Hill must have received a certificate from the chief executive officer and the chief financial officer of St. Bernard to that effect;

there must not have occurred since the date of the merger agreement any material adverse effect on St. Bernard;

St. Bernard, the escrow agent and the other parties signatory to the Escrow Agreement shall have executed and delivered the Escrow Agreement;

each of the affiliates of St. Bernard shall have executed and delivered a written agreement substantially in the form attached to the merger agreement;

- each of the executive officers and directors of St. Bernard shall have executed a lock-up agreement;

counsel for St. Bernard shall have delivered a legal opinion substantially in the form attached to the merger agreement; and

- St. Bernard shall have obtained any necessary third-party consents to the merger.

*Conditions to St. Bernard's obligation*

The obligation of St. Bernard to effect the merger is further subject to the following conditions:

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Sand Hill's and Sand Hill Merger Corp.'s representations and warranties in the merger agreement that are qualified as to materiality must be true and correct and those not qualified as to materiality must be true and correct in all material respects, as of the date of completion of the merger, except for representations and warranties that address matters as of another date, which must be true and correct as of that date, and St. Bernard must have received a certificate from the chief executive officer and the chief financial officer of Sand Hill to that effect;

Sand Hill and Sand Hill Merger Corp. must have performed in all material respects all obligations required to be performed by them under the merger agreement and St. Bernard must have received a certificate from the chief executive officer and the chief financial officer of Sand Hill to that effect;

- there must not have occurred since the date of the merger agreement any material adverse effect on Sand Hill;

Sand Hill, the escrow agent, and the other parties to be signatory to the Escrow Agreement shall have executed and delivered the Escrow Agreement; and

St. Bernard shall have received a written opinion from Duane Morris LLP, counsel to St. Bernard, dated on or before the closing date, to the effect that the merger will constitute a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

If permitted under applicable law, either St. Bernard or Sand Hill may waive conditions for the benefit of itself and its stockholders and complete the merger even though one or more of these conditions have not been met. We cannot assure you that all of the conditions will be satisfied or waived or that the merger will occur.

### **Termination**

The merger agreement may be terminated at any time prior to the consummation of the merger, whether before or after receipt of the Sand Hill stockholder approval, by mutual written consent of Sand Hill, Sand Hill Merger Corp. and St. Bernard.

#### *Termination by either St. Bernard or Sand Hill*

Either St. Bernard or Sand Hill may terminate the merger agreement if:

- the merger is not consummated on or before June 30, 2006;
- any governmental entity issues an order, decree or ruling or takes any other action permanently enjoining, restraining or otherwise prohibiting the merger and such order, decree, ruling or other action will have become final and nonappealable;
- any condition to the obligation of such party to consummate the merger becomes incapable of satisfaction prior to June 30, 2006; or
- at the special meeting, the Sand Hill stockholder approval is not obtained or the holders of 20% or more of the shares of common stock issued in Sand Hill's initial public offering have demanded that Sand Hill convert their shares into cash pursuant to the terms of Sand Hill's certificate of incorporation.

#### *Termination by Sand Hill*

Sand Hill may terminate the merger agreement if:

- St. Bernard breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in the merger agreement which breach or failure to perform would give rise to the failure of specified conditions in the merger agreement and cannot be or has not been cured within 30 days after the giving of written notice to St. Bernard of such breach or by June 30, 2006, if earlier;



• a special meeting of the St. Bernard stockholders is not held within 25 days after the effective date of the registration statement of which this proxy statement/prospectus is a part;

- at the special meeting of St. Bernard's stockholders, the St. Bernard stockholders do not approve the merger;

• St. Bernard's board of directors has withdrawn or adversely modified its recommendation in favor of the merger;

• St. Bernard's board of directors has failed to include its recommendation in favor of the merger in its proxy statement to its stockholders;

• St. Bernard's board of directors has approved an alternative acquisition proposal, which is a transaction where any person has or will acquire 15% or more of St. Bernard's voting power or assets that account for 15% or more of St. Bernard's net revenues, net income or assets; or

• St. Bernard's board of directors determines that it has received a superior proposal, which is an alternative acquisition proposal that St. Bernard's board of directors determines in good faith is superior to the merger that it is required to submit to its stockholders in the exercise of its fiduciary duties.

#### *Termination by St. Bernard*

St. Bernard may terminate the merger agreement if:

• Sand Hill breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in the merger agreement which breach or failure to perform would give rise to the failure of specified conditions in the merger agreement and cannot be or has not been cured within 30 days after the giving of written notice to Sand Hill of such breach or by June 30, 2006, if earlier;

• A special meeting of the Sand Hill stockholders is not held within 60 days after the effective date of the registration statement of which this proxy statement/prospectus is a part;

- At the special meeting of Sand Hill's stockholders, the Sand Hill stockholders do not approve the merger;

• Sand Hill's board of directors has withdrawn or adversely modified its recommendation in favor of the merger;

• Sand Hill's board of directors has failed to include its recommendation in favor of the merger in its proxy statement to its stockholders;

• Sand Hill's board of directors has approved an alternative acquisition proposal, which is a transaction where any person has or will acquire 15% or more of Sand Hill's voting power or assets that account for 15% or more of Sand Hill's net revenues, net income or assets; or

• Sand Hill's board of directors determines that it has received a superior proposal, which is an alternative acquisition proposal that Sand Hill's board of directors determines in good faith is superior to the merger that it is required to submit to its stockholders in the exercise of its fiduciary duties.

#### **Effect of Termination**

In the event of termination by either St. Bernard or Sand Hill, the merger agreement will become void and have no effect, without any liability or obligation on the part of Sand Hill, Sand Hill Merger Corp. or St. Bernard, except in connection with:



the confidentiality obligations set forth in a confidentiality agreement signed among the parties to the merger agreement;

- the indemnification provisions;
- the provisions described under “Fees and Expenses” to be paid upon termination; and
- the general provisions of the agreement.

These provisions will survive termination, except to the extent that the termination results from the willful and material breach by a party of any representation, warranty or covenant set forth in the merger agreement.

### **Termination Fee and Expenses**

St. Bernard will pay Sand Hill a termination fee of \$1.75 million if any of the following events occur:

Sand Hill terminates the merger agreement as a result of the merger not being consummated by June 30, 2006 or St. Bernard breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in the merger agreement, and prior to such termination an alternative acquisition proposal has been communicated to St. Bernard, and within one year of such termination St. Bernard enters into a definitive agreement with respect to such alternative acquisition proposal; or

Sand Hill terminates the merger agreement as a result of St. Bernard not holding a meeting of its stockholders within 25 days of the effectiveness of the registration statement that this proxy statement/prospectus is a part of, or at such St. Bernard stockholders meeting the stockholders fail to approve the merger agreement, or if a Company Triggering Event has occurred, and, within one year of such termination St. Bernard enters into a definitive agreement with respect to an alternative acquisition proposal.

St. Bernard will pay such termination fee within ten business days after the consummation of the alternative acquisition proposal. The termination fee will be net of any expenses reimbursed by St. Bernard to Sand Hill, as described in the next paragraph.

St. Bernard will reimburse Sand Hill for fees and expenses incurred by Sand Hill, up to \$300,000, in relation to this transaction if Sand Hill terminates the merger agreement as a result of St. Bernard not holding a meeting of its stockholders within 25 days of the effectiveness of the registration statement that this proxy statement/prospectus is a part of, or at such St. Bernard stockholders meeting the stockholders fail to approve the merger agreement.

Sand Hill will reimburse St. Bernard for fees and expenses incurred by St. Bernard, up to \$300,000, in relation to this transaction if St. Bernard terminates the merger agreement as a result of Sand Hill not holding the special meeting within 60 days of the effectiveness of the registration statement that this proxy statement/prospectus is a part of, or at such special meeting the stockholders fail to approve the merger agreement.

A “Company Triggering Event” is generally any of the following:

- St. Bernard’s board of directors has withdrawn or adversely modified its recommendation in favor of the merger;
- St. Bernard’s board of directors has failed to include its recommendation in favor of the merger in its proxy statement to its stockholders;





St. Bernard's board of directors has approved an alternative acquisition proposal, which is a transaction where any person has or will acquire 15% or more of St. Bernard's voting power or assets that account for 15% or more of St. Bernard's net revenues, net income or assets; or

St. Bernard's board of directors determines that it has received a superior proposal, which is an alternative acquisition proposal that St. Bernard's board of directors determines in good faith is superior to the merger that it is required to submit to its stockholders in the exercise of its fiduciary duties.

### **Assignment**

The merger agreement may not be assigned by any party without prior written consent.

### **Amendment**

The merger agreement may be amended by the parties at any time before or after receipt of the approval from Sand Hill's stockholders. However, after receipt of the approval from Sand Hill's stockholders, the parties will not, without further stockholders approval, amend the merger agreement in a manner that by law requires further approval by the stockholders of Sand Hill. The merger agreement may not be amended except by an instrument in writing signed on behalf of each of St. Bernard and Sand Hill.

### **Extension; Waiver**

At any time prior to the consummation of the merger, St. Bernard and Sand Hill may extend the time for the performance of any of the obligations or other acts, waive any inaccuracies in the representations and warranties or other documents, or waive compliance with any of the conditions in the merger agreement. Any agreement on the part of either St. Bernard and Sand Hill to any such extension or waiver will be valid only if set forth in an instrument in writing signed on behalf of it. The failure of St. Bernard or Sand Hill to assert any of its rights will not constitute a waiver.

### **Indemnification**

Upon closing of the merger agreement, each of Sand Hill and its respective directors, officers, stockholders, accountants, agents and employees, affiliates and their respective heirs, successors and assigns will be indemnified, held harmless and reimbursed from and against any and all proceedings, charges, complaints, judgments, damages, dues, penalties, fines, costs, amounts paid in settlement, liabilities, taxes, liens, losses, expenses and fees, including court costs and reasonable attorneys' fees and expenses, caused by or arising, directly or indirectly, out of:

any inaccuracy in or breach of any representation or warranty made by St. Bernard in the merger agreement or other agreements contemplated by the merger agreement, St. Bernard's disclosure letter to Sand Hill, or any other certificate or document delivered by St. Bernard pursuant to the merger agreement;

any breach by St. Bernard of any covenant or obligation in the merger agreement or other agreements contemplated by the merger agreement; and

any claim by any person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any such person with St. Bernard, or any person acting on its behalf, in connection with the merger.

However, no indemnification payable shall be required until the aggregate amount of the damages incurred exceeds \$500,000. In the event that the damages exceed \$500,000, the indemnification obligations will include all damages

from the first dollar. In no event will the aggregate liability for which the indemnified parties may seek indemnification exceed the amount escrowed pursuant to the stock escrow agreement. The payment of indemnification obligations will be made pursuant to the stock escrow agreement.

### **Exclusive Remedy**

Except in the case of fraud or willful misrepresentation, the indemnification provisions represent the exclusive remedy of Sand Hill stockholders for losses incurred in connection with the breach by St. Bernard of any of its representations and warranties or its covenants requiring performance prior to the merger contained in the merger agreement.

### **Survival Period**

For the purpose of the stock escrow agreement and the indemnification provisions of the merger agreement, all of the representations, warranties, covenants and obligations of St. Bernard contained in the merger agreement and other documents contemplated by the merger agreement will survive the merger agreement and remain in force for a period of nine (9) months following the closing of the merger agreement. Any claim must be made prior to the expiration of the appropriate period in order for the indemnification claim to be paid with respect to any losses.

### **Stockholders Representative**

The St. Bernard stockholders have designated Mr. Bart A.M. van Hedel as stockholders' representative with authority to make all decisions and determinations and to take all actions (including giving consents and waivers) required or permitted under the merger agreement on behalf of the St. Bernard stockholders with respect to indemnity claims against St. Bernard.

Mr. Humphrey P. Polanen and Mr. Scott R. Broomfield have been designated as the representatives of Sand Hill after the merger, with authority to make all decisions and determinations and to take all actions (including giving consents and waivers) required or permitted under the merger agreement with respect to indemnity claims by Sand Hill.

### **Stock Escrow Agreement**

At the time of the consummation of the merger, Sand Hill will deposit with a mutually acceptable escrow agent ten percent (10%) of the shares of common stock of Sand Hill to be issued in the merger. If within 270 days of the consummation of the merger, Sand hill asserts a claim that St. Bernard breached any representation or warranty in the merger agreement, or covenant requiring performance prior to the consummation of the merger, then, subject to the resolution or arbitration of such claim in favor of Sand Hill, the escrow agent will return to Sand Hill a portion of the shares of Sand Hill common stock held in escrow with a value equal to the damages caused by such breach, up to a maximum of the total number of shares of Sand Hill common stock held in escrow. The number of shares to be returned will be based on a per share price of \$5.10. The escrowed shares will only be available to satisfy claims that are made within 270 days after the completion of the merger. Two hundred seventy days after completion of the merger any remaining escrowed shares that have not been used to satisfy indemnification claims by Sand Hill will be released to the former stockholders of St. Bernard. The complete text of the stock escrow agreement that will govern these matters is attached as Exhibit E of Annex A. We encourage all stockholders to read the stock escrow agreement in its entirety.

## **THE AMENDMENT PROPOSAL**

### **General Description of the Amendment and Restatement of the Certificate of Incorporation of Sand Hill**

The amendment and restatement of the certificate of incorporation of Sand Hill involves changing the name of Sand Hill to St. Bernard Software, Inc. and to remove the preamble and sections A through E of Article Sixth from the certificate of incorporation from and after the closing of the merger, as these provisions will no longer be applicable to Sand Hill and to redesignate section F of the Article Sixth as Article Sixth.

### **Sand Hill's Reasons for the Amendment and Restatement of the Certificate of Incorporation and Recommendation of Sand Hill's Board of Directors**

Sand Hill's Board of Directors has concluded that the amendment and restatement of its certificate of incorporation is in the best interests of Sand Hill's stockholders.

Sand Hill's Board of Directors believes that the name St. Bernard Software, Inc. more accurately reflects the business the combined company will conduct after the acquisition, and will enable industry and financial market participants to more closely associate the combined company with its operating business.